

MILITARY CONSTRUCTION AND VETERANS AFFAIRS, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2009

THURSDAY, APRIL 24, 2008

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:25 a.m., in room SD-124, Dirksen Senate Office Building, Hon. Tim Johnson (chairman) presiding.

Present: Senators Johnson, Landrieu, Murray, Hutchison, and Allard.

DEPARTMENT OF DEFENSE

STATEMENT OF HON. TINA W. JONAS, UNDER SECRETARY OF DEFENSE (COMPTROLLER)

OPENING STATEMENT OF SENATOR TIM JOHNSON

Senator JOHNSON. This hearing will come to order. I welcome everyone to this morning's hearing to discuss the president's 2009 budget request for Military Construction and associated programs. We will hear from two panels of witnesses today, beginning with representatives from the Office of the Secretary of Defense.

Secretary Jonas, Mr. Army, thank you both for coming today. We look forward to hearing your testimony.

The president's Military Construction budget request for 2009 is a record \$24.4 billion, an increase of \$3.8 billion over the 2008 enacted level. Much of this increase can be attributed to BRAC 2005 which at \$9.2 billion is now in its highest stage of construction funding, and to DOD's "grow the force" initiative to increase the end strength of the Army and the Marine Corps.

These initiatives, together with DOD's Global Defense Posture Realignment and the military's ongoing engagement in two wars, have resulted in an unprecedented level of construction spending and force realignments that will have a long-term impact on our Nation's defense.

A continuing concern for this committee is the level of funding requested for the Guard and Reserve. In spite of the huge burden these men and women have been tasked to bear, total aggregate funding for the Guard and Reserve components is down 12.3 percent from what the Congress provided in 2008. The Air Guard and Air Force Reserve in particular have seen dramatic cuts in their military construction requests which are down 60 percent and 28

percent, respectively, from what the administration requested last year.

Finally, in addition to the 2009 budget request, the president has asked for \$2.4 billion for military construction in emergency supplemental funds, primarily for the wars in Iraq and Afghanistan. On top of that, the department has identified another \$1.1 billion in emergency construction funding that it is seeking in the supplemental.

In short, a great deal of money is being requested for a broad array of overlapping initiatives and programs. It is the responsibility of this subcommittee to examine these requests closely to ensure that funding is properly allocated and prioritized.

We will continue to monitor the department's ability to execute such a large military construction program, particularly with the aggressive schedule required to complete the BRAC 2005 program by 2011. We look forward to your help and cooperation in that task.

Senator Hutchison, would you care to make some opening remarks?

STATEMENT OF SENATOR KAY BAILEY HUTCHISON

Senator HUTCHISON. Thank you very much, Mr. Chairman. I'm very pleased to have the Department of Defense and the Navy here to discuss the Military Construction budget.

As we begin this process, I think there are some very encouraging trends in military construction. The overall request is \$24.4 billion, the largest ever for military construction, and especially important to me is the \$9 billion to implement the BRAC actions.

We are trying very hard to continue to meet the 2011 statutory deadline and I think the emphasis on BRAC is very well founded. I look forward to your comments, Mr. Army, to tell us how we're going to stay on that schedule.

The overall Department of Defense budget is balanced and consistent with the stated needs of the department, including funds to increase the end strength of active duty forces which I have advocated for a number of years. I'm glad that the services are planning in a comprehensive way, not leaving facilities out of their calculations, and emphasizing quality of life, particularly for our younger enlisted service members.

My interest in military construction is in providing the right facilities for our fighting forces. The Army is undertaking a huge restationing of troops back to the United States and this committee has really been the leader in producing. Our overseas basing commission was intended to look at overseas bases and whether they were meeting the needs of today's Army and marines especially, Navy and Air Force as well, and to make sure that we were doing it right. That caused the Department of Defense to do the correct assessment and now we will have more soldiers restationed back in America where we have better training facilities and we can put in more permanent housing and quality of life structures.

The marines are also preparing to undertake a massive move, relocating 8,000 service members and their families from Japan to Guam. Many of these marines will move on to Anderson Air Force Base. The Departments of Defense and State have done a good job in gaining the Japanese funding to help with this move and that

makes it all the more important that we have good coordination between the services to get it right.

These are two of the incredibly ambitious agendas within the Department of Defense and I'm pleased to support the infrastructure for all of our military families for BRAC to house those who are coming back and, of course, those who might be moving.

It is against this backdrop that we begin to look at the budget request from the Navy and Marine Corps. \$3.1 billion is a 42 percent level over the 2008 enacted level. This increase will largely support the Marine Corps' end strength increase through the "grow the force" initiative. I'm very pleased that the Marine Corps is getting this plus-up. They are carrying such a heavy load in the war on terror. They're doing a great job and they do need the end strength increase.

The Army has requested \$4.6 billion for fiscal year 2009, an 18 percent increase over the 2008 level. The Air Force budget has slowed again this year, decreasing 19 percent from last year's enacted level.

I'm very pleased that the request for the Army Reserve is up to \$282 million, representing a 90 percent increase from the 2008 enacted level. I think that is very important. Again, the Army—especially, the Army Reserve—is certainly carrying a heavy burden load in this war, as are all of our Reserve components. Increasing the support for them, I think, is very important.

I hope that Ms. Jonas will speak to the overall trend on the Naval and Air Force Reserve components because there's a downward trend there. We will have another Air Force hearing, I know, later in this process.

The Navy and Marine Corps representatives will join us later today and I'm looking forward to hearing about their needs and priorities for 2009. I support the Department of the Navy's emphasis on bachelor quarters, child development centers and fitness centers. The Marine Corps' plan to grow by 27,000 members as they transition to a 202,000 end strength is certainly well planned and I'm pleased to see that the MILCON and Housing requests will accommodate, train and house these additional personnel and their families.

PREPARED STATEMENT

So with that, I appreciate very much what I'm seeing and look forward to hearing more of the details. I probably will have to leave before the question period, but I do want to hear your opening statements.

So thank you very much.

[The statement follows:]

PREPARED STATEMENT OF SENATOR KAY BAILEY HUTCHISON

Good morning Mr. Chairman. I would also like to welcome our witnesses and guests. Today, we will examine the President's budget request for military construction and family housing for the Department of Defense, Base Realignment and Closure actions, and the Department of the Navy, including the United States Marine Corps. I look forward to discussing the construction needs of our soldiers, sailors and airmen with Ms. Jonas, BRAC issues with Mr. Arny, and the needs of the Navy and Marine Corps with the second panel. I understand the Army and Air Force will be here on May 8 to discuss their needs.

As we begin the budget process for fiscal year 2009, there are several encouraging trends in the military construction budget. The overall request of \$24.4 billion is the largest ever for military construction. This includes over \$9 billion to implement BRAC actions, as that program continues its sprint to meet the 2011 statutory deadline. I am very pleased to see this emphasis on BRAC and look forward to Mr. Army's comments on how we can stay on schedule.

The overall Department of Defense budget is very balanced and consistent with the stated needs of the Department. It includes funds to increase the end strength of the active duty forces, which I have advocated for a number of years. I am glad to see the Services planning in a comprehensive way, not leaving facilities out of their calculations and emphasizing quality of life, particularly for our younger enlisted service members.

My interest in military construction is in providing the right facilities for our fighting forces. The Army is undertaking a huge restationing of troops back to the United States, and I am proud to say Fort Bliss and Fort Hood will be welcome recipients of a large part of these moves.

The Marines are also preparing to undertake a massive move, relocating 8,000 servicemembers and their families from Japan to Guam. Many of these Marines will move onto Anderson Air Force Base. The Departments of Defense and State have done a good job in gaining Japanese funding to support this move, but that makes it all the more important that we have good coordination between the Services to get this move right.

These are but two of the incredibly ambitious agendas within the Department of Defense, and it is critical they have the right facilities to support these actions. We have to provide the right infrastructure for our soldiers, sailors, airmen and marines and our military families. This is why fully funding and effectively implementing BRAC is so important. The sooner we can get our servicemen and women home and into new, state-of-the-art facilities, the sooner we will live up to our commitment to provide for them in a way that is commensurate with their service to our Nation.

It is against this backdrop that we begin to examine the budget request for military construction. The Navy's and Marine Corps' \$3.1 billion request is 42 percent over the fiscal year 2008 enacted level. This increase will largely support the Marine Corps' end-strength increase through the "Grow the Force" initiative. The Army has requested \$4.6 billion for fiscal year 2009, an 18 percent increase over the fiscal year 2008 enacted level. The Air Force's budget has slowed again this year, decreasing 19 percent to \$935 million from last year's fiscal year 2008 enacted level.

I am glad to see the fiscal year 2009 request for the Army Reserve is up to \$282 million, representing a 90 percent increase from the fiscal year 2008 enacted level. I am somewhat concerned, however, by the downward trend in military construction for our Naval and Air Force Reserve components. I hope Ms. Jonas will speak to that overall trend, and we will discuss it with those services at the appropriate point in the hearing process. I understand there is funding for Guard and Reserve projects within the BRAC account, but I am still keenly interested in seeing their normal Milcon funding improve. I hope our witnesses will speak to this issue, and provide us with a plan for getting Guard and Reserve Milcon on the right track.

The Navy and Marine Corps representatives will join us later today and I am anxious to hear from Secretary Penn, Major General Payne and Rear Admiral Handley about their needs and priorities for fiscal year 2009. I fully support the Department of the Navy's emphasis on bachelor quarters, child development centers and fitness centers. The Marine Corps' planned growth of 27,000 members as they transition to a 202,000 end strength as a result of the Grow the Force initiative certainly is well planned, and I am pleased to see the Milcon and housing request which will accommodate, train and house these additional personnel and their families.

We owe our military members and their families the best facilities we can provide them, and I commend the Department for making quality of life a top priority. All in all, I believe the Department of Defense has requested the right mix of military construction projects that will enable our service members to meet the Department of Defense's objectives.

I look forward to discussing these and other issues with our witnesses. Thank you, Mr. Chairman.

Senator JOHNSON. Senator Murray.

Senator MURRAY. Mr. Chairman, thank you very much for holding this hearing. I do not have an opening statement, but I will reserve my time for questioning.

Thank you.

Senator JOHNSON. Senator Landrieu.

Senator LANDRIEU. Thank you, Mr. Chairman. The same. I have a statement I would like to submit to the record and then will reserve my time for questions.

[The statement follows:]

PREPARED STATEMENT OF SENATOR MARY L. LANDRIEU

Mr. Chairman, Senator Hutchison, before 1941 the War Department operated out of five separate buildings, which took up a majority of the National Mall. It wasn't until Brigadier General Brehon Somervell offered a solution to the War Department's critical shortage in office space. On September 11, 1941 the Department began construction began on the largest office building in the United States, the Pentagon. To date, this five sided, five story and five layered building remains the symbol of our Nation's military. It sits on 34 acres of land, including the five acre center court, making a footprint large enough to accommodate five capitol buildings. The Pentagon was an \$83 million project and was completed 16 months after groundbreaking.

Today, the Department of Defense, currently manages over 533,000 building and structures, which resides on over 51,400 square miles of real estate. We must continue to improve the quality of our Nation's military installation and infrastructure. The President has requested \$25.2 billion in fiscal year 2009 for Department of Defense military construction and family housing. This will enable the Department to replace, restore and modernize our Nation's military installation assets. With a more accurate quality rating we may be able to fully understand the condition of our U.S military infrastructure. We must return to the efficient and affordable approach taken with the construction of the Pentagon.

As you know, the State of Louisiana is deeply committed to the success of the Federal City Project at Naval Support Activity New Orleans—West Bank and we stand ready to do whatever it takes to make this project a success. Federal City is the largest economic development project in the State of Louisiana, and one that is vital to the economic recovery of New Orleans.

The State of Louisiana has given unprecedented support by committing to invest \$150 million into the project to create a great public-private base on which to house the Marine Forces Reserve (MarForRes) Headquarters. Last Tuesday, our Governor sent a letter to Secretary Winter, fully committing \$150 Million in State funds—funds that can only be used for the Federal City Project.

The Federal City project will result in Military Construction and BRAC saving to the Department of Navy of approximately \$75 million, conservatively. Additional savings will be realized from the shared services costs that will be spread among Federal City tenants. From a Federal fiscal perspective it is not sound federal polity to turn down \$150 million in state subsidy to the Federal City project, of which over half will be directed to the Navy. Without this subsidy, The Department of Navy will be forced to find an unbudgeted \$150 million to \$200 million in BRAC funding, an approach I do not support.

I am well aware of the commitment that the Secretary has made to make the Federal City concept work. However, I will be very troubled should any deviation or lack of support for that commitment fall, to make Federal City happen with Marine Forces Reserve as its anchor tenet. Nonetheless, I am very excited about the project and look forward to the September ground breaking ceremony that will allow construction activities to begin. I will discuss this matter in great detail with you all today, and would greatly appreciate the cooperative effort of the Department of Navy staff has had with the New Orleans Federal Alliance, and hope that we can continue to work together to move this project into reality.

Today's operations tempo on our military is very taxing on our soldiers, sailors, marines and airmen. When they return from combat operations they deserve adequate living quarters that they are proud to call their home. I have major concerns that the Department has not adequately addressed this issue. Many soldiers live and work in poorly maintained facilities all over the world. For example, the barracks that soldiers are currently living in at Fort Polk. Between 1977 and early 1980, 34 Barracks were built at Fort Polk at a cost of around \$5 million each, for a total of \$170 million. In fiscal year 2005 to present, 19 barracks were converted to fit new 1 + 1 construction standards of 140–183 square feet. In addition to cramped quarters and out-dated barracks, 16 barracks still suffer from irreparable and insufferable mold damage. As of today, new construction is not expected until 2013, which is estimated to cost approximately \$188 million.

Recently an Installation Status Report shows that a majority of the thirty-four barracks on Fort Polk do not meet an acceptable living standards under the Depart-

ments own barrack standards. The report shows sixteen have a red rating, meaning substandard living conditions for the soldiers; eleven are adequate but on in need of desperate repair with the remaining seven building deemed decent living accommodations. The Fort Polk Sustainment, Revitalization and Modernization program has been substantially under funded in the past and continues to be underfunded. The lack of these dollars has had a detrimental effect on the maintenance of these barracks. During the years 2001–2005 required a minimum of \$10 million a year, but only 30 percent was funded over the 5 year period. In the past 3 years the Army has done better to improve the barracks by providing 32 million in sustainment dollars. This has helped but still leaves about 80 percent of the barracks in un-livable conditions.

As it feels like we constantly point out the things that are wrong within the Department of Defense, I would like to take a moment to commend the Department on their successes. DOD for the past several years has been very successful replacing or renovating their housing facilities on base, with privatized housing. For example, in 2003 Fort Polk began renovating their family housing, by means of Residential Communities Initiative, which is privatization of military family housing. On April 10, 2003 the Army awarded their first contract. The immediate impacts of the RCI have been: new playgrounds, 6 recreational areas, 21 pocket parks, and 77 bus stops. The economic impact for the local community has been overwhelming with: \$240 million being spent in first 11 years and construction expenditure to date is \$105 million, which 77 percent has been spent with small and local businesses. The base plans to continue with their initiative by constructing 405 new homes, renovating 3,416 of the 3,466 existing homes and demolishing 50 old homes.

In light of this fact and the major improvements to our soldiers and there families we need to act and take the appropriate action for our single enlisted soldiers. We should exploit the accomplishments that the Defense Department has already achieved through privatization of housing and look at the opportunity to privatize barracks.

One of the great things about our military is the 200 year tradition of the volunteer soldier—the citizen soldier. They serve their country courageously, with honor, and with the greatest regard for human life possible. It is our task to ensure that their country treats them with honor, and with the greatest regard for their families, their sacrifice and their safety, when they are deployed and returning home. We have over 180,000 troops currently serving in Iraq and Afghanistan and we have lost 4,536 brave Americans since the beginning of operations. The irreplaceable cost in Iraq and Afghanistan is not the enormous sum before us, but the father, mother, son or daughter serving our country.

Mr. Chairman, I look forward to hearing the testimony from our witnesses today and hope that they are ready to honestly and openly answer any questions this committee may ask.

Thank you, Mr. Chairman.

Senator JOHNSON. Secretary Jonas, Mr. Army, thank you again for appearing before our subcommittee. Your full prepared statements will be placed in the record, so I encourage you to summarize your remarks to allow more time for questions.

Secretary Jonas.

STATEMENT OF TINA W. JONAS

Ms. JONAS. Thank you very much, Mr. Chairman. I appreciate the opportunity to appear before this subcommittee, and I want to personally thank the subcommittee for all the support that it gives our men and women in uniform.

I will give a brief statement and then address the issue of the Air Guard matter as the Senators have limited time today.

First of all, from an overall department perspective, I want to thank Congress, this committee in particular. We have before the Congress a fiscal year 2009 request of \$515.4 billion. That is a \$35.9 billion increase or 7.5 percent increase over the enacted level for 2008. If you put that in inflation adjusted dollars, we're up about 5.4 percent over the prior year.

We believe this budget provides for a high state of readiness for additional ground force strength, which the committee has noted; for additional combat capabilities for our U.S. Armed Forces; and keeps us and our technology advancing to address future potential threats.

We continue to provide strong support for our Nation's military members and their families. The military construction budget, of course, is a big part of what is necessary in the quality of life area. As noted by the chairman, we're requesting \$21.2 billion or an increase of 3.4 percent over the prior year for military construction. We are hoping to increase our end strengths by 92,000 soldiers and marines over the coming years. As the Senators have also noted, the BRAC funding that we requested is at its peak, about \$9.1 billion, to implement the recommendations of 2005.

I again want to thank the committee and express appreciation for the support that we receive from the Congress as a whole.

There are two issues, sir, that I would like to address. One is we appreciate the ongoing efforts of the Congress to fully fund the BRAC amount for the 2008 period. We've had discussions with the House as well and we think that's moving quite well. Full funding is important for us to be able to make our deadlines.

PREPARED STATEMENT

Second, pursuant to our conversation yesterday, Mr. Chairman, I had a meeting with the Air Force Comptroller yesterday about the levels of funding for the Air Guard in particular and we're going to conduct an ongoing study. We want to take a look at the outyear funding, and I have submitted a copy of the letter, that I sent to him, to you.

I understand the concerns of the committee and I'll pay particular attention to that issue.

Mr. Chairman, I will submit the rest of my statement for the record.

[The statement follows:]

PREPARED STATEMENT OF TINA W. JONAS

Mr. Chairman, I just have a brief statement, and I will submit it for the record. Mr. Army has a lengthier statement for the record as well, so I will keep it brief.

Mr. Chairman and members of the Committee, thank you for the opportunity to discuss the Military Construction component of President Bush's fiscal year 2009 budget request for the Department of Defense.

On behalf of the men and women of the Department—both Service members and civilians—I also want to thank the Committee for its continued support of America's Armed Forces. We look forward to working with you to ensure that our military men and women have everything they need to carry out their vital mission.

Mr. Chairman, the President's base budget for Defense is \$515.4 billion in discretionary authority for fiscal year 2009. That is an increase of \$35.9 billion or 7.5 percent over the enacted level for fiscal year 2008. Taking inflation into account, the real growth in this request is 5.4 percent. We are very pleased with that in the Department.

The base budget sustains the President's commitment to:

- Ensure a high state of readiness and ground force strength;
- Enhance the combat capabilities of the U.S. Armed Forces;
- Continue the development and implementation of capabilities to maintain U.S. superiority against future threats; and
- Continue the Department's strong support for Service members and their families.

The Military Construction portion of that request, which supports those strategic objectives, is \$21.2 billion, an increase of \$3.4 billion or 19 percent over the prior year. It funds the Department's most pressing priorities and facilities requirements, including new construction, replacement of troop housing, and facilities to support the increase of 92,000 soldiers and Marines over a 5-year period.

Also included in that amount is \$9.1 billion to implement the recommendations of the 2005 Base Realignment and Closure Commission. This is the peak year for investment in BRAC, and these funds are critical if we are to successfully complete those projects by the deadline of 2011. We are also looking forward to reaping the savings from the anticipated BRAC, but we cannot realize those savings unless we are successful in Defense appropriations.

In addition to the \$21.2 billion needed for facilities, the Department is also requesting \$3.2 billion for family housing. This funding is vital for "quality of life" programs and will enable the Department to privatize an additional 12,324 units and to eliminate inadequate housing units overseas. The requested amount is approximately \$300 million or just over 10 percent higher than the prior year. A big portion of that is for the Grow the Force initiative that we are pursuing.

So on behalf of the Department and the men and women of the Armed Services, I want to thank the committee for letting us appear here today, and I look forward to your questions.

Senator JOHNSON. Will be received. Mr. Army.

STATEMENT OF WAYNE ARMY, DEPUTY UNDER SECRETARY OF DEFENSE, INSTALLATIONS AND ENVIRONMENT

Mr. ARMY. Thank you, Chairman, Ms. Hutchison, other distinguished members of the subcommittee. It's my pleasure to join Ms. Jonas, who I've known for many years, to appear before you on behalf of the department for our military construction budget.

I just have a couple short remarks, too, in terms of our budget. We are continuing to recalibrate our bases overseas and the United States through our global basing efforts and through our BRAC. As Ms. Jonas said, it's important for us on the BRAC issue that we receive the \$939 million that was reduced last year in order for us to stay on track. We know that's an issue for you all and it is for us, and we'll work with you on that and work with all the committees to provide you whatever you need so that we can get that money back on track. Our folks are doing the best they can but they need those funds to keep the BRAC 2005 on track.

On recap and modernization and sustainment, we have a higher request in this year's budget than last. Our Housing and MILCON Programs are also higher than last year and the Navy in particular is leading the way on bachelor housing privatization.

All of these programs and others are discussed in greater length in my prepared statement.

I was also going to discuss with you the MILCON funding for Guard and Reserves. I think Ms. Jonas has covered that. We do review it. We believe, to the best of our knowledge, that the program is balanced from our total perspective. We at OSD do review it every year and we will continue to examine the specifics to make sure that all of the various branches of the services are covered.

As you've seen, our MILCON is up and also our BRAC MILCON is up \$200 million from last year for the Guard and Reserve. A lot of that goes into the Reserve centers but that's up as well.

The last issue I'd like to discuss briefly is joint basing. It's been very important to us in BRAC 2005. One of the major efforts, other than reductions in moving folks around, was to introduce joint basing into the Department of Defense.

We had it in the Reserve side in kind of a cobbled together way. It was working out pretty well, but we had a number of major bases that were either very close to each other or were actually shared common borders and it just didn't make sense to do—for instance, at Lakehurst, McGuire Air Force Base, Lakehurst Naval Air Station, and Fort Dix, to have all three of those share common borders and yet have three different installation managements.

So part of BRAC 2005 was to do joint basing. Before I took over this—and we're on track. I am here to report that we are on track. Before I took over this position, the Deputy Secretary of Defense had issued the Joint Basing Implementation Guidance which was a big step in the right direction.

What that paper stated, the most controversial issue we had was when we joined the bases, would the supported base transfer real property and total obligational authority to the supporting command? To illustrate that, at the McGuire-Lakehurst-Dix, the Air Force is in the lead. So the Air Force is the supporting component. The Army and the Navy are the supported components.

When we fully implement joint basing, the Army and the Navy will transfer all of their real property to the Air Force. So from then on, the Air Force is responsible for maintaining the installations on all three bases. The Navy and the Army will transfer the TOA initially and from then on, the Air Force will budget for all of the maintenance and repair of those facilities and replacement. Okay?

Now, the one difference is if the Navy, which is mostly Naval Air Systems Command, the Navy decides to build a new catapult, that's mission, a new hangar, they decide to bring in a new mission to the Navy base, it will be their responsibility, if it requires new MILCON, say they need a new hangar, there's no hangar on the joint base that can accommodate them, so the three of them get together and decide, well, we need a new hangar, the MILCON for that hangar will be budgeted by the Navy, supported by the Navy, defended before you all. When it's passed and that hangar gets built, then that property will transfer to the Air Force and you can see, I can—you'll see if you look at the—we had 26 bases, I believe the number was. We've combined them down to 12 joint bases.

Guam is one of the big issues we have right now. Guam will be a joint base with the Navy lead and we have worked—when I took over in the middle of February, the Deputy Secretary made his decision on the joint basing guidance. We had working groups in place that had not been active for about a year. We began to meet on a weekly and sometimes more than weekly basis to implement that guidance.

I'm here to report that the guidance is out. We're having a joint basing conference up in Seattle at the end of June for Lewis McCord where Lewis is the—Fort Lewis is the lead and McCord Air Force Base is the follow-on. We're having a joint basing conference. We had a joint—we had a VTC to all the bases around the country, including Guam, put out the guidance. We have a phased schedule and initial IOCs are September of this year.

PREPARED STATEMENT

So we are on track, moving forward, and I myself am going to visit all the joint bases. We know we're going to get lots of questions from the field. We're keeping our working groups in place that have put all this together. We have some 200 different levels of measurement and to answer Senator Hutchison's question, we believe now firmly that joint basing will be in place and is working well.

So with that, the rest of our statement is in the record and we're prepared to answer your questions.

[The statement follows:]

PREPARED STATEMENT OF WAYNE ARNY

Chairman Johnson, Senator Hutchison, distinguished members of the subcommittee. I appreciate the opportunity to appear before you today to address the President's Budget request for fiscal year 2009 and to provide an overview of the approach of the Department of Defense to the management of the Nation's military installation assets.

Overview

Installations are the foundation of America's security—these assets must be available when and where needed, with the capabilities to support current and future mission requirements. As the enterprise managers of the defense installations portfolio, we recognize the importance of ensuring their capabilities are delivered—effectively and efficiently.

America's military installations, including their associated environment, must sustain the home station and forward presence of U.S. forces and support training and deployments to meet the Nation's defense needs. They must provide a productive, safe, and efficient workplace, and offer the best quality of life possible for our military members and their families, as well as the civilian and contractor workforce.

The President and the Secretary of Defense challenged the military to transform itself to meet current and future threats to America's security. In addition to leading-edge weapon systems, doctrinal innovation, and the employment of technology, this transformation also requires a similar change in our approach to the fundamental infrastructure business practices and to the infrastructure "backbone" of the Department of Defense.

The Office of the Deputy Under Secretary of Defense (Installations and Environment) is a focal point in this transformation by fostering the best management practices in our traditional areas and by extending these practices as our force and base structures evolve.

Global Defense Posture

Supporting the warfighter involves much more than episodic spurts of support during combat and other operational missions. Supporting the warfighter requires a long-term, day-to-day commitment to deliver quality training, modern and well-maintained weapons and equipment, a safe, secure and productive workplace, a healthy environment, and good living conditions for our members and their families. Our installations are the core of U.S. combat power—and our installation assets are an inseparable element of the Nation's military readiness and wartime effectiveness.

The fiscal year 2009 request continues the Department's efforts to strengthen forward U.S. military presence, including facilities, personnel, infrastructure, and equipment. The Department continues to realign U.S. global defense posture to better contend with post 9/11 security challenges by transforming overseas legacy forces, Cold War basing structures, and host-nation relationships into a flexible, forward network of access and capabilities with allies and partners. These efforts include:

- Continued force posture realignments within and from Central Europe which enable advanced training and lighter, more flexible ground force capabilities to support NATO's own transformation goals;
- Shifting our European posture South and East by transforming the 173rd Airborne Brigade in Italy and establishing a headquarters and infrastructure support for rotational presence in Romania and Bulgaria;

- Setting conditions for future realignments in the Pacific as part of U.S.-Japan force posture changes that will have far-reaching, beneficial impacts for the U.S.-Japan alliance;
- Continued consolidation and reduction of forces on the Korean peninsula to strengthen our overall military effectiveness for the combined defense of the Republic of Korea; and
- Developing basic infrastructure and capabilities for current and future operations in the U.S. Central Command area of responsibility and other war on terrorism operating regions.

Additionally, the fiscal year 2009 request supports new Departmental initiatives, including the establishment of U.S. Africa Command, as DOD's global defense posture plans evolve and mature.

The Department continues to maintain and strengthen host-nation partnerships supporting support for these posture changes. The fiscal year 2009 global defense posture projects ensure continued strengthening of forward capabilities for the Global War on Terror and other expeditionary non-traditional missions, commitment to alliance goals, and collective defense capabilities, and enhanced deterrent capabilities for addressing future security challenges.

Implementing Base Realignment and Closure (BRAC) 2005

As previously discussed to before this Committee, BRAC 2005 is the largest round of base closures and realignments undertaken by the Department. After an exhaustive examination of over 1,200 alternatives, the Secretary of Defense forwarded 222 recommendations to the BRAC Commission for its review. The Commission accepted about 65 percent without change and its resulting recommendations were approved by the President and forwarded to the Congress. The Congress expressed its support of these recommendations by not enacting a joint resolution of disapproval by November 9, 2005; therefore, the Department became legally obligated to close and realign all installations so recommended by the Commission in its report. These decisions affect over 800 locations across the Nation and include 24 major closures, 24 major realignments, and 765 lesser actions. The BRAC Act requires that the Department begin implementation of each recommendation within 2 years of the date the President transmitted the Commission's report to the Congress and complete implementation of all recommendations within 6 years of that date which is September 15, 2011.

Beyond the comparative size, it is important to note that BRAC 2005 is the most complex round ever. This complexity is not merely a function of its magnitude, but is, to the largest extent, a function of the original goal established for this round: that BRAC 2005 would focus on the reconfiguration of operational capacity to maximize war fighting capability and efficiency. Focusing on operational capacity requires that we appropriately assess the increased military capabilities we are achieving through these recommendations.

The BRAC program is substantial; it represents a \$33.2 billion requirement over 2006–2011 and \$4 billion in annual savings after full implementation (after fiscal year 2011). The Department originally estimated BRAC 2005 investment using the Cost of Base Realignment Actions (COBRA) model at \$22.5 billion (adjusted for inflation) with Annual Recurring Savings of \$4.4 billion. When compared to our current requirement there is a \$10.7 billion or 48 percent increase in these costs.

There are a number of reasons for this increase, and even though the reasons have been discussed in previous hearings they deserve repeating. The "COBRA" model used in arriving at the original estimates is a tool for comparative analysis that ensures all installations were treated equally as required by the BRAC law. As an analytical tool it is dependent on the quality of the input, which is based on the known conditions at the time the recommendations were developed without the benefit of detailed site surveys and thorough planning charrettes. As such, resulting estimates were never intended to be budget quality.

As a consequence, the primary cost increase drivers were market driven military construction (MILCON) factors and Army specific investments. MILCON makes up approximately 70 percent of this BRAC program (compared to about 33 percent in previous BRAC rounds). Therefore, this round was particularly influenced by price growth in the construction industry. Given the significance of MILCON on this round's implementation, it is not surprising that 85 percent of the cost growth is associated with construction.

Equally significant was the Army leadership's decision to invest an additional \$4 billion to recapitalize its total force, accommodate larger Army units and a growing force, and address the inflation addressed above. The Army leadership consciously chose to ensure that its troops had improved war fighting facilities such as training ranges, robust reserve component infrastructure, and quality of life facilities.

DOD also chose to make similar investments in other areas. For example, acting on the recommendations of the Independent Review Group that examined conditions at Walter Reed, the Department committed to accelerate the closure of Walter Reed. In addition, DOD leadership directed that the quality and scope of the new National Military Medical Center and the Fort Belvoir Community Hospital incorporate lessons learned from the current conflict. Investments in improvements, such as more single patient rooms and wounded warrior support infrastructure, increased costs. Similar cost growth has occurred for largely the same reasons in the San Antonio Military Medical Center.

Other DOD Components chose to recapitalize (build new) rather than renovate and expand existing facilities to accommodate mission change and incorporate lessons learned. For example, both the Missile Defense Agency and the National Geospatial Intelligence Agency determined that increased costs to build special compartmental intelligence facilities were worth the added investment to meet mission needs. The Army originally intended to use existing space at Fort Knox, KY for the co-location/consolidation of its military personnel and recruiting command with the Accessions and Cadet Command creating a Human Resources Center (HRC) of Excellence. The Army determined the increased cost to build a “new” HRC complex was more cost effective than renovating 1950’s era facilities spread throughout the installation.

Finally, there were also increases in non-MILCON cost categories; such as environmental cleanup costs. These costs were not included in the original COBRA estimates by design. If clean up costs had been incorporated in COBRA, the process would have had an artificial bias to close only “clean” bases.

The Congress provided \$7.2 billion to the Department in fiscal year 2008 to continue implementation of the BRAC recommendations, \$939 million less than what the fiscal year 2008 President’s Budget requested. This cut compounds the problems already created from delayed appropriations in the last 2 fiscal years. Delays and cuts adversely affect construction timelines because approximately 70 percent of the BRAC 2005 effort directly supports military construction. Delays in funding and the \$939 million reduction present severe execution challenges and seriously jeopardize our ability to meet the statutory September 15, 2011 deadline. This will mean sacrificing savings that could have been achieved and delaying movement of operational missions.

If the \$939 million reduction is not restored, or even if it is restored late in the process, we will have to work, very, very hard to meet the statutory deadline. The magnitude of the reduction requires careful evaluation to support allocating the reduced funding within the Department so that only those projects with the highest priority, as determined by their operational and/or business case effects, go forward on the schedule previously provided to Congress.

The \$9.2 billion for BRAC 2005 implementation and \$393.4 million for continuing environmental cleanup and caretaker costs at previous BRAC sites requested in the fiscal year 2009 President’s Budget is approximately \$1.1 billion more than the fiscal year 2008 President’s Budget request. The \$9.2 billion request represents full funding for BRAC 2005 implementation assuming the fiscal year 2008 reduction is restored.

As my predecessor previously testified, the Department recognized the challenges for this BRAC round and responded by initiating a process to develop Business Plans that establish the requisite actions, the timing of those actions, and the costs and savings associated with implementing each recommendation. The documentation of savings in Business Plans directly responds to the observations made by the U.S. Government Accountability Office in previous reports regarding the Department’s BRAC implementation process. Additionally, the OSD Office of the General Counsel has been a key player in reviewing the Business Plans to ensure that they are legally sufficient and to verify that the Department is meeting its legal obligations.

During the past year of BRAC implementation, the Department has several significant efforts that are underway. Specifically the award of a \$429 million (first increment) military construction project for the National Geo-Spatial Agency headquarters at Fort Belvoir, Virginia, and award of 17 military construction projects at Fort Bliss, Texas to support Army Global Rebasing, Transformation and BRAC. At Fort Sill, Oklahoma the military construction project supporting the establishment of the Net Fires Center that will improve training capabilities while eliminating excess capacity at institutional training installations is progressing. At Fort Bragg, North Carolina, two BRAC projects totaling \$80 million were awarded and at Fort Riley, Kansas, there are 6 BRAC MILCON projects that support Global Rebasing currently on going. We continue to make great progress at Fort Lee, Virginia, with the award of the projects that will support the creation of a Combat Service Support

Center of Excellence and at Fort Benning, Georgia, with the consolidation of the Armor and Infantry schools. The Navy's largest BRAC 2005 operational action is to close Naval Air Station Brunswick, Maine and consolidate the East Coast maritime patrol operations in Jacksonville, Florida. The Navy awarded contracts for the final two increments to complete the contracting actions required to build a new hangar (\$123 million) for the P-3 squadrons that will move to Jacksonville. When completed in fiscal year 2011, the Navy will have streamlined East Coast maritime patrol operations and expects to save over \$100 million per year.

Assisting Communities

The Department, through the Office of Economic Adjustment (OEA) and the Defense Economic Adjustment Program (DEAP), continues to work with States and the more than 175 communities across the country impacted by the effects of BRAC 2005, Global Defense Posture Realignment (GDPR), Army Modularity, and "Grow the Force" actions.

To date, the Department has recognized Local Redevelopment Authorities (LRAs) for 110 BRAC sites, encompassing more than 47,000 acres of surplus property. These LRAs are expected to provide leadership and develop a redevelopment plan at each location. In some instances LRAs may also direct implementation of the redevelopment plan. The Department is assisting these LRAs as they conduct homeless outreach and seek to balance the needs of the communities in the vicinity of the installation for economic redevelopment and other development with the needs of the homeless as established by statute. Efforts to date have yielded completed redevelopment plans at 62 locations. Once completed, a redevelopment plan is to be included as part of an application to the U.S. Department of Housing and Urban Development (HUD) for that Department's review for compliance with the statute.

Following HUD's review, the Military Departments work closely with affected LRAs to tailor disposal actions that consider local circumstances. The Department has an array of legal authorities by which to transfer property on closed or realigned installations. These include public benefit transfers, economic development conveyances at cost and no cost, negotiated sales to State or local government, conservation conveyances, and public sales, and the Military Department's National Environmental Policy Act analyses give substantial deference to the LRA's redevelopment plan.

The Department has disposed of approximately 481,290 acres, or 95 percent of the real estate made available in prior BRAC rounds (1988, 1991, 1993, & 1995). Federal assistance to these locations has exceeded \$1.9 billion to date, and local redevelopment efforts in turn have resulted in the creation of over 137,500 jobs, more than offsetting the 129,600 civilian jobs that were lost as a result of the BRAC actions.

In addition to those communities that are affected by the closure and downsizing of military installations, OEA is working with locations experiencing a growth of missions and/or personnel. These locations are in close dialogue with their local installations to understand the timing and scope of this growth and many are developing growth management plans for additional community services and facilities to ease the absorption of the new DOD associated population. OEA hosted a December 2007 "Growth Summit" in St. Louis, bringing more than 260 Summit participants from affected communities and their neighboring military installations, where mission growth is expected, together with cognizant Federal agencies. The Summit introduced communities and these Federal agencies to each other and provided an opportunity for participants to share their challenges, plans, and experiences regarding a variety of specific community growth issues including education, housing, transportation, workforce adjustment, infrastructure, healthcare, and compatible use/sustainability.

The challenge for many of these locations is to respond to a myriad of hard infrastructure (road, schools, houses, water and sewer) and soft infrastructure (public services, health care, child care, spousal employment) issues that directly bear on the quality of life for our warfighters, their dependents, and the homeowners, businesses, and workers in the surrounding communities. A primary concern is how to blend and apply local, State, and private resources to address local needs. Through this process, potential gaps in these civilian sources are emerging and OEA is working with each affected State and locale to understand these gaps and raise them with other Federal Agencies for consideration and action.

The ability to support States and communities affected by these DOD actions goes beyond the Department's capacities, resources, and authorities. Accordingly, the Department relies upon the Economic Adjustment Committee (EAC) to implement the Defense Economic Adjustment Program (DEAP) pursuant to Executive Order 12788 (as amended). The EAC is comprised of 22 Federal agencies to coordinate inter-agency and intergovernmental adjustment assistance and serve as a clearinghouse

for the exchange of information between Federal Government, State, and community officials involved in the resolution of economic adjustment concerns resulting from DOD actions. To help facilitate this exchange of information, OEA has begun a major initiative this fiscal year to develop an information portal to support the mission of the EAC. By providing all stakeholders with a shared understanding of planned drawdowns, increases, and other vital information, the EAC will be able to best facilitate cooperation among Federal, State, local and regional partners, in order to minimize confusion, delay, and sub-optimal progress.

In response to BRAC 2005, approximately \$300 million in Federal grants, loans, and technical assistance has been provided to date to assist State and local governments, businesses, and workers to date. Efforts under the auspices of the EAC are presently concentrated on worker assistance, education and transportation support for “growth” communities, public benefit property conveyance issues, and economic development assistance. For example, senior Defense and Education officials have already visited some growth locations to better understand the issues associated with changes in school age dependent student enrollment and to develop an understanding of responses necessary to assist local education efforts to adjust to these changes.

Managing Infrastructure

Along with continued improvement in business practices, the Department is focused on improving the quality of military installations as evidenced by the emphasis on more accurate Quality Ratings, which are currently being collected by the Military Departments. Managing DOD real property assets is an integral part of comprehensive asset management. The Department currently manages over 545,000 facilities on approximately 30 million acres of land.

The Department’s Real Property Asset Management plan, recently published in the form of the 2007 Defense Installations Strategic Plan, directly supports the President’s Management Agenda by identifying specific goals and objectives to improve the fidelity of inventory reporting and tracking the metrics designed to monitor improvement progress. This plan also focuses on improved asset management planning, inventory submission and performance measure data, and the disposal of unneeded assets. The Department’s progress in meeting these goals is monitored and reported quarterly through the President’s Management Agenda scorecard. As part of the Federal Real Property Council’s government-wide initiatives to improve real property inventory reporting, the Department continues to provide inventory and performance data to the Federal Real Property Profile annually.

One of the primary tools contributing to the improvement of data integrity has been the implementation of DOD’s Real Property Inventory Requirements document. This document refines the quality of data collected by improving the specificity of the data elements requested for submission and by standardizing the data elements collected among the Military Departments. Our annual data collection process is currently undergoing a significant upgrade with the development of a net-centric data warehouse that will soon directly interface with the Military Department’s native real property inventories and eliminate the old painstaking manual data collection processes that had a high potential for unintended errors.

Facilities sustainment is a key element of our approach to maintaining our real property. Sustainment represents the funds for necessary maintenance and for the major repairs or replacement of facility components that are expected to be made periodically throughout the life cycle. Sustainment prevents deterioration, maintains safety, and preserves performance over the life of a facility. It has been and continues to be the top priority in the Department’s facilities strategy. To forecast sustainment funding requirements, DOD developed the Facilities Sustainment Model several years ago using standard benchmarks for sustainment unit costs by facility type (such as cost per square foot of barracks) drawn from the private and public sector sources. The cost factors used to establish those benchmarks are updated on a regular basis. Our Department-wide, long-term goal continues to be full sustainment of our facilities to optimize our investment and ensure readiness. As a reflection of the importance of facilities sustainment to the overall health of our inventory, the fiscal year 2009 budget request reflects an increase in the Department-wide sustainment funding rate from 88 percent in the fiscal year 2008 budget request to 90 percent, which equates to a \$796 million increase.

SUSTAINMENT AND RECAPITALIZATION REQUEST

[President's budget in millions of dollars]

	Fiscal year 2008 request	Fiscal year 2009 request
Sustainment (O&M-like) ¹	6,686	7,482
Restoration and Modernization (O&M-like plus) ¹	1193	1,780
Restoration and Modernization (Military Construction)	5, 908	8,102
TOTAL SRM	13,787	17,364

¹ Includes Operations and Maintenance (O&M) as well as related military personnel, host nation, and working capital funds and other appropriations such as Research, Development, Test and Evaluation (RDT&E)

Another key element of our stewardship is recapitalization. Recapitalization includes restoration and modernization, using the resources necessary for improving facilities. It is the second element of the Department's facilities strategy. Recapitalization is funded primarily with either Operations and Maintenance or Military Construction appropriations. Restoration includes repair and replacement work to restore facilities damaged by inadequate sustainment, excessive age, natural disaster, fire, accident, or other causes. Modernization includes alteration of facilities solely to implement new or higher standards, to accommodate new functions, or to replace building components that typically last more than 50 years. Our DOD goal has been to achieve a recapitalization rate of 67 years, and the fiscal year 2009 budget request exceeds that goal by funding recapitalization at a rate of 56 years. This is an improvement over the rate of 76 years achieved in the fiscal year 2008 budget, and is due, in part, to the impact of BRAC and Global Basing. The fiscal year 2009 budget request increased by \$2.781 billion from the fiscal year 2008 budget request for recapitalization.

We are in the process of refining the way that we measure our investment in recapitalization, and will no longer be measuring a rate in years. The new method, which will be implemented in fiscal year 2010, will focus on the modernization of the inventory of existing facilities, and will be tailored to the actual inventory of facilities within each Military Department.

The Department remains committed to maintaining a rate of investment in facilities recapitalization that will improve, modernize, and restore existing facilities while at the same time replacing facilities in support of efforts to reshape and realign infrastructure. However, as the Department consolidates and reshapes its infrastructure, it will also experience localized growth in the size of the facilities footprint. This is necessary to provide the quality and quantity of facilities and assets necessary to support military personnel and their families. These efforts include facilities to support Army Transformation, Army and Marine Corps Grow-The-Force initiatives, and bed-down of new weapons systems, such as F-22 and the Joint Strike Fighter.

Elimination of excess and obsolete facilities in the inventory, an effort separate and distinct from the BRAC process, continues to be another key element of the Department's asset management plan. The Military Departments continue to maintain and execute robust disposal and demolition programs in order to reduce overall operating costs associated with facilities sustainment and installation support, improve the overall safety and aesthetics of our installations, and ensure that only essential infrastructure is retained in the inventory. In July 2007, the Military Services and selected Defense Agencies updated their disposal targets, and our goal now is to eliminate over 60 million square feet of facilities and additional excess infrastructure by the year 2013. But there is much more work to be done.

We are continuing our efforts to forecast our disposals more accurately, to capture that information in the real property inventory, and to assess the impact of disposals on the entire inventory of facilities more accurately. We are doing this by assessing the net result of a comparison of the value of infrastructure removed from the inventory with the value of infrastructure added to the inventory. This will contribute to a more accurate view of the level of recapitalization of our global inventory of facilities.

The fiscal year 2009 budget request includes \$7.72 billion for Facilities Operations, formerly referred to as "Real Property Services." This program provides the municipal services on our installations, such as utilities, fire protection, custodial services, grounds maintenance, and other related functions. To forecast Facilities Operations requirements, DOD developed the Facilities Operations Model using commercial and public sector benchmarks to determine the funding requirements for the essential services at our installations.

We continue to make progress in defining common standards and levels of support for a variety of services provided on our installations. We are in the process of realigning the manner in which we track individual services so that we can more effectively determine the budget requirements for those services that are essential to the health, welfare, and quality of life of the service members, families and civilian employees who live and work on our installations. The processes that are being developed are included in our implementation of the BRAC 2005 Joint Basing recommendation. We have made considerable progress in that area and are on track to meet the statutory deadline for the establishment of joint bases. The initial implementation guidance for the joint bases was recently issued, and the specific details for implementing this BRAC recommendation and achieving its benefits are well underway.

The Military Construction appropriation is a significant source of facilities investment funding. The fiscal year 2009 Defense Military Construction and Family Housing Appropriation request totals \$24.4 billion, which is an increase of \$3.235 billion from the fiscal year 2008 budget request. This funding will enable the Department to respond to warfighter requirements rapidly, enhance mission readiness, and provide for its people. In addition to new construction needed to bed-down forces returning from overseas bases, this funding is used to restore and modernize enduring facilities, while eliminating those that are excess or obsolete. A large part of the increase in the Military Construction requirements (\$1.86 billion) supports the President's Grow-the-Force initiative, projects needed to support the realignment of forces, projects to improve and update facilities used by the Guard and Reserves forces, and facility projects needed to take care of our people and their families, such as family and bachelor housing, Wounded Warrior housing, and child development centers.

COMPARISON OF MILITARY CONSTRUCTION AND FAMILY HOUSING REQUESTS

[President Budget in Millions of Dollars—Budget Authority]

	Fiscal year 2008 request	Fiscal year 2009 request
Military Construction	9,480	11,283
NATO Security Investment Program	201	241
Base Realignment and Closure IV	220	393
Base Realignment and Closure 2005	8,174	9,065
Family Housing Construction/Improvements	1,080	1,457
Family Housing Operations & Maintenance	1,851	1,741
Chemical Demilitarization	86	134
Family Housing Improvement Fund	0.5	1
Energy Conservation Investment Program	70	80
Homeowners Assistance	5
TOTAL	21,165	24,400

In January 2006, the Department joined 16 other Federal agencies in signing a Memorandum of Understanding (MOU) for Federal Leadership in High Performance and Sustainable Buildings. The guiding principles of sustainable design defined in the MOU are to employ integrated design principles, optimize energy performance, protect and conserve water, enhance indoor environmental quality, and reduce environmental impact of materials. The Department is committed to incorporate sustainable design principles through a comprehensive approach to infrastructure management. We are pursuing Leadership in Energy and Environmental Design (LEED) Silver as a goal for nearly 70 percent of the fiscal year 2009 Military Construction Program. In addition, the Department is working to assess and address existing facilities' sustainable practices.

Improving Quality of Life

Access to quality, affordable housing is a key quality-of-life factor affecting service member recruitment, retention, morale, and readiness. Through privatization and increases in housing allowances, DOD has made great strides in increasing service members housing choices. Privatization allows for rapid demolition, replacement, or renovation of inadequate units and for the sale without replacement of inadequate units no longer needed. Privatization enables DOD to make use of a variety of private sector approaches to build and renovate military housing faster and at a lower cost to American taxpayers.

To date, the military Services have leveraged DOD housing dollars by 12 to 1, with \$2 billion in Federal investments generating \$24 billion in housing development at privatized installations. The fiscal year 2009 budget request includes \$3.2 billion, an increase of \$300 million above the fiscal year 2008 enacted level, which will construct new family housing to accommodate Grow the Force, improve existing housing, eliminate inadequate housing overseas, operate and maintain government-owned housing, and fund the privatization of 12,324 additional homes.

The housing privatization program was created to address the oftentimes poor condition of DOD-owned housing and the shortage of affordable private housing of adequate quality for military service members and their families. Privatization allows the military services to partner with the private sector to generate housing built to market standards for less money and frequently better quality than through the military construction process. Additionally, and almost of greater importance, the projects include 50 years of maintenance and replacement where necessary. Although nearly all projects have been awarded, we are still in the early stages of the program since the housing will be privately owned for 50 years. With privatization deal structures and an income stream in place, full revitalization will be completed within a ten-year development period.

As of the end of 2007 through the privatization program, and some military construction projects, we have privatized over 80 percent of the domestic inventory. Additionally, DOD has eliminated 92 percent of inadequate family housing units in the Continental United States and territories (CONUS) including all inadequate units for the Army, Navy, and Marine Corps. While there are some remaining inadequate Air Force units, these are being addressed in fiscal year 2008. Inadequate units are considered to be eliminated when they are conveyed to the private owner, who then revitalizes the housing.

Tenant satisfaction is high, particularly for revitalized and newly constructed housing. Given DOD's objective of improving quality of life for its service members, the degree of satisfaction service personnel experience in privatized housing units is a critical indicator of overall program success. Since DOD provides military families with Basic Allowance for Housing (BAH) at privatized bases, a military family's decision to live in privatized housing is a significant measure of satisfaction. The occupancy rate of nearly 90 percent program-wide demonstrates the overall success of the program in providing suitable housing.

A number of installations face changes and challenges as military family housing requirements expand and contract due to Base Realignment and Closure (BRAC) restructuring, global re-posturing, joint basing, or Grow the Force requirements. While some installations may find they have a surplus of housing as a result of these changes, others may experience a deficit. However, even as needs for military family housing may change, ensuring that our service members and their families have access to safe, desirable, and affordable housing will remain constant. The Services continue to evaluate installation housing requirements and the opportunities to meet additional housing needs through privatization continue to expand.

Under the Military Housing Privatization Initiative (MHPI), private sector developers and lenders develop, maintain, and operate the privatized housing and resolve issues when they arise. Market forces drive contractor performance and the primary enforcement mechanism is the ability of the military members to choose where to live. If a housing project is not meeting performance expectations, lenders have the option, with the approval of the Department, to replace the owner with a more viable entity. One developer, American Eagle, currently owns five projects and is experiencing financial difficulties. American Eagle was the general partner or owner of six MHPI projects, including one Navy project, one Army project, and four Air Force projects. The company sold its Navy project in late 2007 and is in the process of selling its remaining five projects. The Army project, at Fort Leonard Wood, Missouri, is stable and in the process of being sold to another developer. American Eagle continues to fund maintenance of the existing inventory of homes for the four Air Force projects. The Air Force is maintaining constant dialogue with the projects' owner and bondholders while American Eagle pursues the transfer to another developer. The Department recently conducted an assessment of the overall financial condition of DOD housing privatization owners. This assessment shows that with the 87 awarded MHPI projects involving over 173,000 units, the likelihood of developers experiencing financial stress is low across the board.

The fiscal year 2009 budget request includes funding to eliminate inadequate family housing outside the United States. The budget request reflects a military construction cost of \$125 million for the Army to construct 216 family housing units in Korea as an alternative to the build-to-lease effort.

The Department is also committed to improving housing for our unaccompanied Service members. DOD continues to encourage the modernization of Unaccompanied

Personnel Housing (UPH) to improve privacy and provide greater amenities. In December 2007, the Navy executed its second Unaccompanied Housing privatization pilot project. The Hampton Roads, Virginia, unaccompanied housing project will construct 1,187 new apartment units and privatizes 726 existing unaccompanied housing units at Naval Station Norfolk. Navy pilot projects, enabled by use of partial allowance, have successfully improved the quality of life of unaccompanied personnel. The Department is now considering future uses of this methodology.

In fiscal year 2007, the Army added bachelor officer quarters and senior enlisted bachelor quarters to its existing privatization projects at Fort Bragg, North Carolina; Fort Stewart, Georgia; Fort Drum, New York; Fort Bliss, Texas/White Sands Missile Range, New Mexico, and Fort Irwin, California. In fiscal year 2008, the Army will complete and begin implementing a Lodging Development Management Plan covering the 13 installations that are part of the Privatization of Army Lodging program Group A.

Energy Management

The Department continues to aggressively implement energy conservation measures and avoid associated costs while improving utility system reliability and safety. To that end, the Department developed comprehensive policy guidance incorporating the provisions and goals of Executive Order 13423, Strengthening Federal Environmental, Energy, and Transportation Management which the President signed on January 24, 2007. This policy guidance will continue to optimize utility management by conserving energy and water usage, and improving energy flexibility by taking advantage of restructured energy commodity markets when opportunities present themselves. Requirements of the recently passed Energy Independence and Security Act of 2007 will be incorporated as Federal guidance is developed. The Department is in the process of developing implementation guidance.

The Department's efforts to conserve energy are paying off. DOD is the largest single energy consumer in the Nation and consumed \$3.4 billion in facility energy in fiscal year 2007, a modest but significant savings of \$80 million from fiscal year 2006. DOD facility energy consumption intensity is down more than 10 percent from the 2003 baseline, and non-tactical vehicle petroleum consumption has dropped 5.4 percent since fiscal year 2005. Our program includes investments in cost-effective renewable energy sources or energy efficient construction designs and aggregating bargaining power among regions and the Services to achieve more effective buying power.

DOD has significantly increased its focus on purchasing renewable energy and developing resources on military installations. Renewable energy projects are consistently more expensive than similar conventional energy sources, resulting in limited opportunities that are life cycle cost effective, so innovative strategies have been employed, such as the power purchase agreement resulting in 14 megawatts of solar electrical production at Nellis Air Force Base, Nevada. The Department has increased the use of Energy Conservation Investment Program (ECIP) funds for renewable energy projects from \$5 million in fiscal year 2003 to \$28.2 million planned in fiscal year 2008, and plans call for ECIP to increase \$10 million per year, up to \$120 million in fiscal year 2013, and renewable energy projects will continue to be a high priority. The Department exceeded the Energy Policy Act (EPA) 2005 renewable energy goal of 2.5 percent in fiscal year 2007, reaching 5.5 percent of facilities electrical consumption under the Department of Energy accounting guidelines. In 2005, DOD set a goal to reach 25 percent renewable energy procured or produced by fiscal year 2025 and Congress placed this goal in the National Defense Authorization Act 2007. I am pleased to say that the Department reached 11.9 percent renewable energy procured and produced for fiscal year 2007, placing it well on track to achieve the goal. While EPA 2005 did not articulate a specific water reduction goal, Executive Order 13423 includes a goal of a 2 percent water reduction per year. The Department began tracking water consumption in fiscal year 2002. By fiscal year 2007, DOD has reduced water consumption intensity by an impressive 25 percent and total water consumption by 27 percent or 43.8 million gallons per year. While we will continue to strive to exceed the requirements, our prior achievement has served to set the baseline low, so continuing the trend will be a challenge.

Environmental Management

The Department continues to demonstrate leadership in protecting and conserving the natural resources on the approximately 30 million acres entrusted to it. Through our environmental management programs we are integrating environmental sustainability into all aspects of the day-to-day operations of the Department, helping us to achieve our goals for pollution prevention, cleanup, and conservation. Over the last ten years, the Department has invested almost \$42 billion to ensure the success

of our environmental programs, and the fiscal year 2009 budget request of \$4.3 billion will sustain our environmental progress in support of the warfighter.

Executive Order 13423, "Strengthening Federal Environmental, Energy, and Transportation Management", directed Federal agencies to "lead by example in advancing our Nation's energy security and environmental performance." Since signature of the Executive Order last January, the Department has established an Executive Steering Committee of senior officials from across the Department to develop the long-term strategic goals necessary to implement this order. These goals and supporting policies will integrate and strengthen our existing environmental, energy, and transportation programs to improve our management of toxic and hazardous chemicals, further enhance management of our natural resources, encourage sustainable development, and improve the management of energy use.

Our ability to link the natural and built infrastructure with national security and readiness enables the Department to integrate environmental sustainability into all aspects of military operations—from design to disposal. Our Natural Infrastructure Management (NIM) initiative provides a framework for identifying and managing the Department's natural assets—air, land and water—together with operational or mission requirements, so that the Department can predict current and future natural infrastructure needs and investment needed to sustain those assets. The Department piloted a NIM prototype at representative installations in 2005 and 2006, and is now developing policy and guidance to ensure that natural infrastructure assets are recognized and leveraged effectively to support current and future mission capability.

The Department uses Integrated Natural Resource Management Plans (INRMPs), critical habitat designations have been avoided at 35 installations. That, coupled with our conservation efforts to protect species at risk and common species before they become rare, provides the Department more flexibility in its mission activities.

The Department conducts environmental cleanup or restoration in cooperation with Federal and State agencies due to past use of hazardous substances, pollutants, contaminants, and military munitions on areas of active and former installations. The Department prioritizes resources for Installation Restoration Program (IRP) sites to address past releases of hazardous substances, pollutants, and contaminants, and Military Munitions Response Program (MMRP) sites to address hazards associated with unexploded ordnance and discarded military munitions on a "worst first" basis. By the end of fiscal year 2007, the Department had completed cleanup at 69 percent or 21,600 of the 31,500 IRP and MMRP sites. For IRP, the Department achieved a remedy in place (RIP) or response complete (RC) at 89 percent of active installation sites, 68 percent of sites at Formerly Used Defense Sites (FUDS), and 85 percent of sites on installations closed or realigned in the first four rounds of BRAC and BRAC 2005. For MMRP, the Department has fulfilled its cleanup obligations at over 53 percent of BRAC installation sites, and 24 percent of the sites at FUDS, with the remaining MMRP, as well as IRP, sites either undergoing cleanup actions or investigations.

Employing a strategy that goes beyond mere compliance with environmental laws and regulations, the Department is transforming our business practices by integrating environment into our acquisition process, maintaining a high level of environmental quality in defense activities, and preventing pollution at its source. From fiscal year 2000 through 2007 there was a 23 percent reduction in the number of new Federal and State enforcement actions received despite an 8 percent increase in the number of regulatory inspections. For January through June 2007, the latest information available, installations achieved a 95 percent compliance rate with wastewater treatment permits, and 98 percent of the 3.6 million customers served by DOD drinking water systems received drinking water that met or exceeded Safe Drinking Water Act standards, which compares favorably with the Environmental Protection Agency's goal of 95 percent. Using an integrated approach that enhances waste reduction and optimizes solid waste reduction, in 2007 the Department diverted almost 3.5 million tons or 60 percent of our solid waste from landfills avoiding approximately \$180 million in landfill costs, and reducing hazardous waste disposal by 20 percent compared to 1999. The Department is also effectively managing air quality, reducing hazardous air pollutant emissions at our installations by 728 tons in 2006. To further reduce waste and resource consumption, in 2004 the Department established a Green Procurement Program (GPP), which encourages Components to buy recycled, recovered, and bio-based products whenever feasible. Through the GPP, the Department has become the leader in green procurement, and we continue to make further improvements to GPP, most recently issuing policy direction in December 2007 requiring DOD contracting officers to use a contract provision giving preference to biobased products. Through GPP and all other environ-

mental programs we will ensure a more secure and sustainable future for the environment and our Armed Forces.

Emerging Contaminants

Our experiences with the mission and environmental consequences associated with perchlorate, ozone depleting substances, and other chemicals with evolving regulatory standards indicate a need to establish a proactive program to make earlier, better-informed, enterprise-wide risk management decisions regarding these emerging contaminants (EC). This new program is already helping us better protect human health and the environment, and enhance military readiness. Simply put, the EC program identifies risks early in the process, before regulatory actions take place or materials become unavailable, thus protecting our people, assets, and mission.

Within the EC program we have established a three-tiered process to (1) identify and inform DOD decision-makers early, (2) assess the impacts of evolving science and the potential risks to human health and DOD's mission implied by that science, and (3) develop appropriate risk management options for DOD program managers. Twenty EC impact assessments have been completed in the past 18 months for chemicals that include explosives, fuel constituents, corrosion preventatives, fire-fighting foams, and industrial degreasers. Examples of risk management options resulting from these assessments include conducting research to fill basic science gaps, improving material handling and personal protection practices, developing new or improved remediation technologies, and developing less toxic substitute materials or processes. One of the major thrusts of the program is to work closely with the DOD industrial base to conduct life-cycle analyses regarding less toxic alternative chemicals for use in weapons platforms, systems and equipment.

Because of the many national policy issues related to ECs, we are working with a variety of external stakeholders, including a number of Federal and State regulatory agencies, industry, academia, and professional organizations. As an example, we formed an EC working group with the Environmental Protection Agency and the Environmental Council of States. That working group has four consensus work products aimed at resolving issues and clarifying policies and practices involving ECs—all in various stages of completion.

Our experience with Perchlorate is particularly instructive. Perchlorate has been used by DOD since the 1940s as an oxidizer in explosives, pyrotechnics, rocket fuel, and missiles. Its high ignition temperature, controllable burn rate, and stable chemical characteristics reduce handling and storage risks and the likelihood of unexpected detonations which makes it among the safest and least expensive explosive we use. DOD was quickly blamed for perchlorate found in drinking water supplies in over 34 States.

DOD has acted responsibly as the science and understanding of perchlorate has evolved—including sampling, cleanup activities, and \$114 million in research focused on perchlorate treatment technologies, substitutions, and analytical techniques. To ascertain our responsibility for perchlorate releases and public exposure, DOD issued clear policy in 2006 requiring sampling and compliance with applicable Federal and State standards. The latest round of DOD-wide sampling data shows that we are taking appropriate response actions and that DOD installations, overall, do not appear to be a significant source of perchlorate contamination in the Nation's drinking water. In California, where perchlorate has been a particular concern, our joint review with the State has found that of the 924 current and formerly used Defense sites, 99 percent do not appear to pose a current threat to drinking water. The remaining 1 percent has some confirmation sampling underway or the assessments are still being reviewed by Californian regulatory agencies.

DOD also demonstrated that the sources of widespread, low levels of perchlorate exposure are complex. For example, we now know that annual imports of perchlorate in fireworks alone exceed the amount of perchlorate annually purchased by DOD. Road flares may also be a significant source of groundwater contamination. Other DOD investments are paying dividends—we have found suitable substitutes for a number of military pyrotechnics and research for other applications is ongoing. DOD can now differentiate natural from manmade sources of perchlorate and is working on refining this technique to distinguish the different manmade sources to ensure that DOD only pays for clean up for which it is responsible.

Sustaining the Warfighter

Our Nation's warfighters require the best training and the best equipment available. This means sustaining our vital range and installation infrastructure where we test equipment and conduct training. Incompatible land use in the vicinity of DOD installations and ranges continues to challenge sustainability. The unintended

consequences of this encroachment upon our ranges and installations are varied and include such challenges as more noise complaints from new neighbors, complaints about smoke and dust, diminished usable airspace due to new structures or increased civil aviation, a loss of habitat for endangered species, and a compromised ability to test and train with the frequency needed in time of war.

History and experience gained over decades demonstrate that realistic and proper training of U.S. troops will result in victory. Assured access to operational ranges is the only way to continue that training. In 2001 the Department undertook the Readiness and Range Preservation Initiative to achieve a balance between national defense and environmental policies. As a result, DOD is successfully balancing environmental statutory and regulatory requirements with our national defense mission requirements.

In 2002, the Congress provided statutory authority to use Operations and Maintenance (O&M) funds to create buffers around our ranges and installations. Using this authority the Department established the Readiness and Environmental Protection Initiative, or REPI, and has worked with willing partners to cost-share land conservation solutions that benefit military readiness and preserve natural habitat. In fiscal year 2005, REPI leveraged \$12.5 million of O&M funding to secure \$58 million worth of buffer land and easements, encompassing 14,688 acres at seven installations. In fiscal year 2006, REPI leveraged \$37 million of O&M funding to secure \$71 million worth of buffer land and easements, encompassing 18,833 acres. The fiscal year 2006 acreage will increase pending the completion of some unfinished projects. The 2007 and 2008 projects will continue to leverage REPI funds against partner contributions. REPI and partner funding has allowed DOD to protect the Navy's one-of-a-kind La Posta Mountain Warfare Training Facility in California; to keep training areas open at Marine Corps Base Camp Lejeune, North Carolina; and buffer live-fire training ranges at Fort Carson, Colorado; just to name a few projects. Overall in fiscal year 2007, REPI initiated 26 projects in 17 States, and for fiscal year 2008 an additional 46 projects have been identified for funding. For fiscal year 2008 the Congress appropriated \$46 million for REPI. The President's Budget request for fiscal year 2009 for REPI is \$40 million.

After several years of implementing REPI projects, the Department of Defense asked the RAND Corporation to assess the program's effectiveness. In 2007, RAND issued its report, titled *The Thin Green Line: An Assessment of DOD's Readiness and Environmental Protection Initiative to Buffer Installation Encroachment*. The report found that REPI projects were beneficial to the military, to the environment, and they improved the quality of life in communities where the projects were located. REPI projects are providing land buffers around military installations and ranges, and have been proven effective in relieving military training and testing activities from encroachment pressures.

The RAND report shows that REPI projects have had a wide range of environmental benefits; including helping to preserve habitat, biodiversity and threatened and endangered species; protecting wildlife corridors; and helping with water quality and supply concerns. REPI's benefits not only help buffer military activities and enhance Department of Defense environmental programs; they also improve the military installation's reputation with surrounding communities. For example, according to the RAND report, REPI has also affected the quality of life around Fort Carson by protecting large open spaces. Similarly, REPI projects such as the ones near Naval Air Station Fallon in Nevada can also help preserve the local agricultural way of life.

Many of the issues that concern the Department of Defense are also of mutual concern to other Federal agencies and State governments. These issues cross administrative boundaries and occur at the regional scale. The Department of Defense is working in partnership at the regional level with State governments and Federal agencies to facilitate dialogue and to address issues of mutual concern. These partnerships are proving essential to sustaining our ranges and installations. For example, the Department of Defense continues to work with State governments and other Federal agencies in the Southeast Regional Partnership for Planning and Sustainability—or SERPPAS. The States of Alabama, Florida, Georgia, North Carolina, and South Carolina are engaged with the Department of Defense and other Federal agencies in this important regional scale initiative. Through the SERPPAS process, the partners are promoting better planning related to growth, the preservation of open space, and the protection of the region's military installations.

In 2007, DOD continued to work closely with other Federal agencies to sustain military readiness. On energy issues, the Department of Defense continues to work with other Federal agencies to ensure that wind farm projects and energy transmission corridors are compatible with military readiness activities. The Department also continues to work with the Department of Homeland Security to ensure that

our military readiness activities and infrastructure in border regions are not impacted by new security measures. Outreach to non-Federal and non-governmental organizations continues to be a significant part of the Department's sustainability program, and today we are working with State, county, and local governments, Tribal, and environmental groups on issues of mutual concern to seek win-win solutions. Overseas, DOD continues to develop mission sustainment procedures to work with our host nations Global Defense Posture partners. To sustain today's warfighters, and our Nation's future warfighters, the Department of Defense will continue its engagement and partnering efforts.

Safety and Health Risk Management

A significant responsibility of Installations and Environment is oversight of occupational safety and health. Secretary Gates has challenged us to reduce preventable accidents and this has driven real improvements. Over the last year, the Department experienced an overall improvement in its safety and health performance.

For civilian employees, we are meeting the President's goals in the Safety, Health and Return-to-Employment (SHARE) initiative by decreasing our lost time injury rate by 5 percent. We plan to continue to improve by increasing the number of installations participating in OSHA's Voluntary Protection Program. This program engages every person—commanders, middle managers, employees, and military members—in changing attitudes toward accident prevention.

For motor vehicle safety, motor vehicle crashes—both in military operations and on U.S. highways—continue to be the number one cause of military fatalities outside of direct combat. We continue to work with tactical vehicle developers to provide safer vehicles for combat operations, and work with the Services and Combatant Commands to improve operating doctrine for using the vehicles in a manner that minimizes crashes. The greatest risk to our soldiers returning from Iraq is being the victim of a crash on U.S. highways. The Military Services recognize this challenge, and have aggressive programs to reorient soldiers back to safe driving habits in the United States. While our highway crash experiences are very similar to the general public, we still work to prevent each of these losses. Every fatality still means that one of our Nation's sons or daughters has been needlessly lost.

For aviation safety, we have made long-term progress in reducing aviation accidents, reducing the overall rate of Class A accidents by 20 percent since fiscal year 2002. The Military Services continue to improve aircraft technology to provide our pilots with more capable and safer aircraft, and to improve training and information needed for improved pilot performance. Strategic improvements in aviation safety will be supported through our partnership on the Next Generation Air Transport System (NextGen) Joint Planning and Development Office.

Future improvements in DOD Safety and Health performance will be guided by our principles of applying management systems for continuous improvement, and engaging all of the risk decision makers in improve awareness and attitudes toward reducing risk.

Integrating Business Enterprises

We have made significant and tangible progress implementing the core capabilities of the Real Property Accountability (RPA) business enterprise priority. This effort spans all Components, applying best business practices and modern asset management techniques to provide the warfighter access to secure, reliable information on real property assets and environment, safety, and occupational health sustainability. RPA is one of the six overall DOD business enterprise priorities articulated in the DOD Enterprise Transition Plan, which is the Department's roadmap for the improvement of critical business operations. As DUSD(I&E), I am the lead in the Department for ensuring that RPA stays on schedule.

RPA is aligning end-to-end business processes and enhancing management visibility into operations by establishing and integrating common processes and data standards, redefining defense business in terms of functions managed and customers served rather than who performs the task.

RPA correlates directly to the Under Secretary of Defense (Acquisition, Technology, and Logistics) goal of "Capable, Efficient, and Cost Effective Installations" and will help us to improve installation planning and operations by embracing best business practices and modern asset management techniques. The RPA initiatives have already improved awareness of the importance of accurate inventories, optimized resources, and enhanced access to real property information.

The groundwork for RPA is nearly complete. Over the past few years, the Department has developed enterprise-wide capabilities for real property accountability and visibility, environmental liabilities accountability and valuation, and hazardous materials operational controls. These capabilities are founded on requirements for a

common business process model, standard data elements and data definitions, business rules, and recommendations for policy changes. The Components are fine-tuning and implementing plans to fully integrate these requirements into their operating environments.

Another key accomplishment in this area was the establishment of the Real Property Unique Identifier Registry which reached full operational capability for assigning real property unique asset identifiers in December 2007. An initial step forward into a federated location construct, the registry will provide authoritative physical location information for DOD real property to communities outside of the real property and installations management core business mission. Other successes over the past year include:

- Assignment of unique identifiers to all DOD's real property assets to provide more granular physical location data for DOD's legal interests in all user communities. Current accurate location information provides enhanced access to essential data for strategic decisions, increasing accountability, and reducing costs.
- Incorporation of fundamental geospatial standards in the Business Enterprise Architecture, the Department's business information infrastructure. Utilization of these standards provide a common set of mapping information and tools which enhance geospatial visualization capabilities while avoiding redundant acquisition of geospatial resources across the Department.
- Real property inventory tools and procedures have been developed, and we have made progress towards implementing and maintaining consistent, accurate, and complete information on the real property portfolio across the Department.
- Initial operating capability for the Hazardous Material Master Data Capability, a year ahead of schedule, which placed the chemical and regulatory data essential for safe and effective handling of hazardous materials in a production environment. In partnership with the Defense Logistics Agency, we will improve the availability of accurate, authoritative hazard data while eliminating redundant data purchases, entry, and maintenance burden across the Department.

Over the past few years, the Department has developed enterprise wide capabilities for real property accountability and visibility, environmental liabilities accountability and valuation, and hazardous materials operational controls. Accurate and timely data is fundamental to effective management of assets, and ultimately to military success.

Conclusion

In closing, Mr. Chairman, I sincerely thank you for this opportunity to highlight the Department's successes and outline its plans for the future. To meet the ever changing warfighting landscape our military must be flexible and responsive and our installations must adapt, reconfigured, and be managed to maximize that flexibility and responsiveness. I appreciate your continued support and I look forward to working with you as we transform these plans into actions.

Senator JOHNSON. Thank you, Mr. Arny. I suggest we will have 7 minute rounds of questions.

Secretary Jonas, I would first like to thank you for your very prompt response to the concerns I mentioned to you yesterday regarding the level of military construction funding in the 2009 budget request for the Guard and Reserve, particularly with regards to the Air Force.

Secretary Jonas, I have some questions about the Iraq war supplemental which this committee is currently considering. In late March, the Defense Department submitted a supplemental budget adjustment to Congress. This adjustment apparently did not go through OMB and was not submitted as a budget amendment.

Can you explain the purpose of this budget adjustment and does it have the full support of the DOD? Why was the adjustment request not submitted to OMB? Has it been cleared by the OMB and does the president support it?

Ms. JONAS. Thank you, Mr. Chairman. Quite simply, in the spring, the Vice Chief for the Army and his staff notified us that some of the equipment purchases they were planning to make, for example, their family of medium tactical vehicles, were going to

slip and there were some other items that were going to not come on contract right away.

Knowing that, we discussed it with the Army further and I talked with the Deputy Secretary and I felt that it was our responsibility to let the Congress know and to provide the committees with some additional recommendations of where the funds could be better spent.

Pursuant to that, we approached the chairmen of the Defense Committees and we briefed the subcommittees here about the recommendations we would have. We did speak with OMB about it and we felt that they were fine with us trying to work it through with our committees, so that's how we ended up with where we are, sir.

We felt, and I think as this committee understands well, rather than try to maintain money for trucks that wouldn't deliver this year, it would be better to put it toward a higher priority need. Clearly we believe the BRAC and MILCON pieces are very important and we felt that it was a nice opportunity to be able to adjust appropriately.

Senator JOHNSON. Prior to the submission of the supplemental budget adjustment, the president had requested \$976 million, nearly a billion, for emergency military construction in Iraq. The adjustment reduced that request by \$101 million but that still leaves \$875 million for Iraq reconstruction in the request.

Secretary Gates has said many times that the United States is not building permanent military bases in Iraq. So why are we continuing to spend so much money in military construction in Iraq? What are the department's projections for military construction requirements in Iraq in 2009?

MILITARY CONSTRUCTION PROJECT EVALUATION IN IRAQ

Ms. JONAS. Mr. Chairman, the rule set that we try to use when we're adjudicating whether or not something is appropriate for the supplemental is we try to make sure a project fits within one of these categories: an operational need, a safety requirement or quality of life.

We have tried rigorously to stick to these general categories and we have had conversations with those who are responsible for the theater operations. In fact, I spoke with General Dempsey, the acting commander of CENTCOM, just yesterday, pursuant to one of your questions provided to me yesterday.

It is our preference to do only what we need to do and certainly, as the Secretary has stated, we are not in favor of any permanent type of location. I am willing to work with the committee to address any concerns that you have over individual projects.

Senator JOHNSON. Mr. Arny, I understand that you are conducting a study on the adequacy of OMB's baseline construction and inflation rate of 2 percent, which is used to develop the military construction budget.

What is the status of the study and what can be done to improve the accuracy of the military construction cost escalation? Based on what you have reviewed, do you believe the 2 percent inflation rate factored into the 2009 budget request is adequate?

Mr. ARNY. This problem arose, at least I became aware of it, in BRAC 2005 because we were taking the COBRA figures that were put together and we were trying to translate them into real buildings.

With most of our MILCON, the problem is not as large as it was for BRAC because the standard MILCON project takes—becomes a germ in—becomes an idea on a base maybe 5–6 years before it actually gets here. So we're able to go and design that facility based on parametric studies and when we hit the BRAC one, we just had basically the COBRA models. We had to translate that into what we thought the building would actually cost, but at the same time, we were hit with Katrina and the Navy, where I was at the time, the Navy in particular was hit with a number of hurricanes in the Southeast and we knew that inflation, construction inflation would be much higher than standard nationwide inflation.

That's when we discovered we had no mechanism to really handle that. So we knew that many of our buildings were designed at cost underneath of what we would pay for it. I also asked the question why didn't we see this over the past 10 or 15 years. Well, say from 5 years ago to 15 years ago, construction prices were getting better and better. We'd estimate a project would cost a \$100 and it would come in at \$95.

So the facilities guys always had a little bit of extra money in the pot. So if they found local inflation was higher, they could move money around inside and you never saw it at our level, but not only did we get Katrina and a number of other effects that we couldn't calculate in, but even on some of the projects that we'd been designing for a long time, we discovered that they were going out of sight and we were having to come back to you multiple times in some cases, one in particular in the Northwest, and ask for more money or the worst case we were getting, our engineers were going in and downscoping a project.

They'd say okay, at a hundred bucks to build this project, the bid came in at a \$120, I'm going to take \$20 off the project and, you know, my philosophy, our philosophy was if the requirement is for x , you want to build to x , not x minus 20 percent.

The problem became is that—and I used to work at OMB. OMB looks at a larger perspective, not down at construction, and construction is a very small percentage of what we're doing in the whole budget. So we did a Lean 6 Sigma Study on it because we thought the facility pricing guide was what was hurting us which laid in normal inflation rates.

What that study told us, it wasn't the facility pricing guide, it was the fact that we had no mechanism to account for local construction inflation. For instance, in Seattle area, we had a nuclear weapon storage facility and we knew hurricane problems down in the Southeast but it was coming in at 15 percent, 20 percent over cost. We couldn't understand where it was coming from.

Well, when you look at construction costs in Seattle, they were increasing 15 percent a year primarily, people believe, because of the Vancouver Olympics were driving the cost of everything up.

So what we've done is we're working—the Navy was doing it for all of OSD. We're working with the Comptroller, because they were part of our team, to see what could we all—what measure could we

find that everybody would agree on was a normal measure and then we're going to OMB to say, look, let us work with you to find a mechanism to put in local inflation.

So again having worked at OMB, the philosophy is the Navy must be out—OSD must be out to steal more of our money. What we've convinced them finally is we're not out to take more money. We want each project that goes through the budget to be properly priced, so when the engineer in the field opens the bid, that bid is close to what we estimated. They understand that now and our next step is to take that study, we've got the final results coming in, and to sit down with OMB and to try and figure out what common—we'll never be perfect because everything we do lags reality a little bit, but at least I foresee it where, when the services give it to OSD, we change the numbers around and make sure it's perfect.

When OSD gives it to OMB, that's another chance to change the projects around and move money around and make sure they're perfect and when we give it to the Congress, then we can work with the Congress so that as you're passing the bill, you make sure with us that they're as close as possible, and again I think we've made tremendous headway over the past couple of years convincing OMB that we're not out to rob them, we're just out to get the right price for the contracts.

Senator JOHNSON. Senator Hutchison.

Senator HUTCHISON. Thank you very much. I visited Bagram Air Force Base at the end of February and General Rodriguez said that since it has been declared an enduring base, that he is no longer able to use his command contingency account funds when a contingency is needed and they are building very good added facilities for fuel storage, better runways, and also an apron for helicopters, all of which is very necessary.

But my question is are you looking at the situation at Bagram and perhaps looking either for an exception there so that he can react to the immediate needs as they are at the same time beginning to build up better facilities, and we will certainly be, at least I will be supportive for military construction for an enduring base structure so that they will be able to have that capability when our marines move in also in larger numbers.

So what are you doing to address that at Bagram?

Mr. ARNY. The issue is new to me, Senator. I do know that we did get a request in for commitment for use of contingency funds at Bagram and we will examine that.

Senator HUTCHISON. Okay. Well, I do hope you will—

Mr. ARNY. Absolutely.

Senator HUTCHISON [continuing]. Because what they're doing is terrific and they're using a lot of local contractors and labor and it's working well. They're also building better housing there which is so needed, Mr. Arny, if ever there was a priority.

They're still using some of the Russian facilities there and since we know we're going to be building it up, that needs to be a priority, but he also needs to have some contingency capabilities. So I'd like to have your view on it when you can examine it better.

Second, incremental funding. Many times, we are looking at large military construction projects. We know that the total amount

cannot be spent in 1 year and we would like to be able to divide it into usable portions so that we can use the money more effectively where we know it can be spent and that has been something that our committee has been united in doing.

However, the services tell us that it puts a strain on their ability to budget for the next year because they can't plan for incremental funding for a project because of OSD guidance.

So I'm asking you if not allowing the services to accommodate incremental funding and putting it into units that would be in sort of what you can do on a 1-year basis wouldn't be more prudent, and since you have said that you came from OMB which around here is sort of like saying I'm a lawyer, but since you have experience with OMB,—

Mr. ARNY. Ms. Jonas came from OMB, too.

Senator HUTCHISON [continuing]. I'm wondering if you could work out a solution on this that's more responsible for the use of our dollars. So whichever former OMB person would like to take that, I'm happy to have it.

INCREMENTAL FUNDING OF MILCON PROJECTS

Ms. JONAS. I will note that I was a lowly examiner at OMB and I think Wayne was a program associate director.

Thank you, Senator, for that question. This has come up frequently. We do have a limited number of larger programs in the budget. For example, we have some Chem-demil items in MILCON and we've got about 13 follow-on projects that are incrementally funded.

We frequently engage OMB on this topic. What would be helpful to us is some guidelines from the committees that we might use to engage OMB in discussion to define when projects could be considered for incremental funding.

Currently, if a project will cost \$100 million, OMB will consider incremental funding. Some of the House committees use a \$50 million threshold. \$50 million threshold, but it's clearly—it happens and is worked through on a yearly basis. It's—but I understand it causes concern for the services and I understand with the many important Milcon projects it can be very difficult to fully fund every project.

We're engaged on a continual basis with OMB on this. We had a conversation about it in December before we submitted the budget and I'm sure that dialogue will continue. We haven't gotten to the ultimate set of ground rules that we want, but I do understand the concerns and it kind of runs around a \$100 million threshold.

Senator HUTCHISON. Well, I would like—I mean, we would like to work with you, but I think you would be the ones on the ground who would know where does a \$100 million make sense but where is \$50 million more reasonable, depending on the part of the country where a construction project would be going and the capability of finding the contractors and the workforce and the numbers that you would need.

I think we would be certainly willing to consider something in our bills that would accommodate a policy that I'd like to see come from the Department of Defense in general. I just think it would help us in budgeting and it would certainly keep the services from

having to hold money and not use it when they know they can't use it.

Mr. ARNY. Philosophically, it really is anathema to OMB to do that. Both of us having worked there, we understand that, but having worked there, we did make a lot of headway. In December, I went over with Ms. Jonas's team and we said, look, you can mandate all you want to that there be no incremental funding, but I worked for four budgets on the Senate Armed Services Committee and I said, the committees are going to take that money from you and it really hurts the services because they have to put that money in there. Guess what? They've got to put it back in the next year.

So whether or not you agree with it philosophically, it's going to happen because all four MILCON committees have said it's going to happen. So let's reach agreement between the three parties on what the rules are and once we know what the rules are, then I said the committees have been very good in following those rules. So it's not a case of people running around amuck. They have a set of rules. Let's all agree. If you don't like the rules, rather than saying let's not do it at all, let's agree on the rules.

I think we made tremendous headway and they were wrapped up in the budget, so we said we'd come back this spring and talk to them.

Senator HUTCHISON. Okay. Thank you very much. I have some other questions which I will pursue for the record because my time is up. Thank you.

Senator JOHNSON. Senator Murray.

Senator MURRAY. Thank you very much, Mr. Chairman. As you probably know, the decision on the KC-X Tanker Recapitalization has been a very important issue to me and I've been asking a number of questions to try to get a more complete understanding of how that decision was made, and I would like to know what role OSD played in the need for military construction funds on that contract and wondered if you can tell me what interaction your office had in the evaluation and planning for the MILCON costs that are associated with the KC-X Tanker.

Mr. ARNY. That was handled by the services during the execution and as far as I know, we at OSD—I had just got here. We at OSD had no interaction on it.

Senator MURRAY. You had no interaction or anything?

Mr. ARNY. No.

Senator MURRAY. Well, our budgets are extremely tight and we've got to be able to fully plan for the costs that are associated. So we need some complete answers on the total cost of that contract.

The Secretary of Defense obviously is responsible for proper planning for our military, so I do have a few questions that I would like you to consider. You may not be able to answer them, but if you can get them back to me, I'd appreciate it.

I'm told that the evaluation of MILCON costs associated with the KC-X was normalized to the one base where the Boeing 767 and the Airbus A-330 cost difference was the smallest. It seems to me it would make more sense to have a complete and robust evaluation of MILCON costs for all KC-X bases performed.

Do you have a comment on that?

Mr. ARNY. No. I have to get back to you on that.

[The information follows:]

With respect to Military Construction (MILCON), the Air Force evaluates MILCON requirements and estimates the funding through an iterative process. As the program progresses through System Development and Demonstration (SDD) and aircraft basing decisions are finalized, the initial MILCON estimates will be updated to reflect specific MILCON projects. This refinement is a normal part of the process. The Air Force calculated and took into consideration MILCON cost estimates for active duty bases, overseas locations, Guard, and Reserve Components. Since a basing strategy has not been finalized, the Air Force conducted site surveys of several existing tanker bases. These surveys were used as a basis for estimating MILCON costs for ten bases, which included four Air National Guard/Air Force Reserve bases and two overseas locations. The Air Force is confident in this initial MILCON estimate and will continue to refine it based on specific requirements as basing decisions are made. It is important to note that MILCON cost estimates were not considered in isolation by the source selection team, but were included as a component of the Most Probable Life Cycle Cost, accounting for approximately 2 percent of the total cost.

Senator MURRAY. You do?

Mr. ARNY. I just am not familiar with the issue.

Senator MURRAY. Okay. If you could get back. I'd like to know—well, I do know that there will be associated costs with either the Boeing 767 or the Airbus A-330, but I would like to know how the differences in size and weight of those two tankers was considered in the evaluation when that was done and what oversight DOD has when a service is preparing for a major procurement.

So if you could answer—well, you probably don't know about the size and weight and whether that was in the evaluation, but maybe you can answer the question for me, what oversight does DOD have when a major procurement is happening with one of the services?

Ms. JONAS. Senator, that would fall under the purview of our Under Secretary for Acquisition and Technology and Logistics, John Young. We'd be happy to have his staff get back with you on this particular matter.

Senator MURRAY. Okay. You don't know if he had any oversight on that issue?

Ms. JONAS. I don't.

Mr. ARNY. I know he was overseeing it.

Ms. JONAS. But we don't know the details of it.

Senator MURRAY. All right. Well, if you could get back to me on the first part of that, and I also would like to know about the participation of Active Duty, National Guard, Air Force Reserves. All of them have individual needs of their own in this contract, and I'd like to know whether the Active Duty and Reserve component provided cost estimates to the Defense Department as they were being considered, if you could find that out for me.

Mr. ARNY. Will do.

[The information follows:]

The Air Force calculated, and took into consideration, MILCON cost estimates for active duty bases, overseas locations, Guard and Reserve Components. Since a basing strategy has not been finalized, the Air Force conducted site surveys of several existing tanker bases. These surveys were used as a basis for estimating MILCON costs for ten bases, which included four Air National Guard/Air Force Reserve bases and two overseas locations. The Air Force is confident in this initial MILCON estimate and will continue to refine it based on specific requirements as basing decisions are made. It is important to note that MILCON costs estimates were not con-

sidered in isolation by the source selection team, but were included as a component of the Most Probable Life Cycle Cost, accounting for approximately 2 percent of the total cost.

Senator MURRAY. And also, I wanted to know about the construction costs for hangars, ramps, taxiways, all of those things. If you can let us know whether that was evaluated and what were those costs with this contract. Finally, I did want to know if the dollars for the increased MILCON required to bed down the next generation tanker was included in the 5-year budget plan. You might know that.

Mr. ARNY. I will check on it for you.

[The information follows:]

The Air Force calculated, and took into consideration, MILCON cost estimates for active duty bases, overseas locations, Guard and Reserve Components. Since a basing strategy has not been finalized, the Air Force conducted site surveys of several existing tanker bases. These surveys were used as a basis for estimating MILCON costs for ten bases, which included four Air National Guard/Air Force Reserve bases and two overseas locations. The Air Force is confident in this initial MILCON estimate and will continue to refine it based on specific requirements as basing decisions are made. It is important to note that MILCON costs estimates were not considered in isolation by the source selection team, but were included as a component of the Most Probable Life Cycle Cost, accounting for approximately 2 percent of the total cost.

Senator MURRAY. Okay. All right. Because I'm very concerned. I think that obviously with this new tanker, construction will have to begin in fiscal year 2009 or 2010 in order to be ready for the first delivery of the tanker. So this is something this committee needs to understand. So if you could please get that for me, and I do have a couple other questions in regards to that, but I would really appreciate it if you could get those questions back to me. It will have a military construction impact for us and I want to know if that was ever considered, what was considered, how it was evaluated, and what it's going to cost us.

Let me go to joint basing then. Obviously I hear a lot about it, McChord and Fort Lewis are in my State, and I know it's not an easy undertaking. I was listening carefully to your comments on that.

I do understand the Air Force will have the supportive component at Lewis and McChord, but the airfield operations, from what I understand, are going to remain under the Air Force scope.

So I wanted to know, does that mean that they are also in charge of the Fort Lewis airfield operations?

Mr. ARNY. Yes and no. In the case of the Army, the Marine Corps and the Navy, airfield operations is not considered—is considered an installation function. So in the case of McGuire-Lakehurst-Dix, both the Army and the Navy were happy with the Air Force running the airfield. As an old naval aviator myself, as, you know, the squadron came in, as long as somebody was there to pump the fuel, I didn't care if he belonged to the Air Wing or if he belonged to the base, just as long as somebody—as long as there was an airfield that didn't have a big pothole in it, I didn't worry about it.

But in the Air Force, their philosophy is different and airfield operations is truly core mission because they deploy their whole air wings. The Navy deploys by squadrons and it's a different organization.

So what we did for those airfields is we said, okay, there are only three bases affected, Lewis, McChord, Guam and Hickam, Pearl Harbor Hickam, and in that case, all of the real property, the hangars, the flight line, the runway itself, all that transfers to the lead service. So Fort Lewis will own all of the facilities. The flight operations themselves for McChord will be run by the wing commander. Okay?

Senator MURRAY. What about the Fort Lewis airfield?

Mr. ARNY. At Fort Lewis, what we said is Fort Lewis, the Army can still run it or if the Army wants the Air Force to do it, it doesn't prevent it. Right now, it's an option for the base. So the flight ops at Fort Lewis right now are being run by the Army. When—now the two bases are sitting down and starting 2 weeks ago to craft—

Senator MURRAY. So you're telling me it's undecided?

Mr. ARNY. It's up to them. It's up to them how they want to do it.

Senator MURRAY. Okay. I also wanted to get your reaction to the fact that I have heard from some Air Force personnel that the Army is used to living their way and that the Army housing is sub-standard to the Air Force, and I wondered what you thought of that.

Mr. ARNY. It's the difference between perception and reality. The Air Force has always believed, and as an old Navy guy, both my sons are naval officers, frankly, prior to housing privatization, I probably couldn't disagree with you.

Senator MURRAY. I didn't say it. Air Force personnel said it to me.

Mr. ARNY. I couldn't disagree with them. There was always a perception that the standard joke in the Navy was the Air Force goes to build a base, they build the officers club, they build the golf course, they build the exchange, and then they come back to Congress to get more money to build the airfield. That was the standard joke.

But we believe, especially with housing privatization, that the housing is standard across all the services now. That notwithstanding, one of the biggest—one of the most important efforts we've done over the past 3 years is to develop common standards of output for levels of service.

Senator MURRAY. I think whatever service you're in, you ought to get the same standard of living conditions.

Mr. ARNY. And that's what we've done, and the joint bases—and that's why we've had all the services together. They all agree. These are the standards. So if at a particular base, the standards for housing is lower, we're going to raise that standard.

Senator MURRAY. Okay.

Mr. ARNY. If the standard for service for child care is different, it's now going to be the same on the joint bases. So if you go from one part of the joint base to the other, the standard will be the same.

Senator MURRAY. Okay. I think the perception of the Air Force personnel saying that to me is we don't want to go down to the Army standard.

Mr. ARNY. No, they're coming up. That was the point. We all had to agree.

Senator MURRAY. I think that attitude needs to be we're going to bring them up to our standard.

Mr. ARNY. Yeah. Well, in any case, sometimes the standard they felt was coming up to wasn't any different than the other standard. It was a perception. Where it's a reality, we've all agreed on what the standard is. Whether it's—we've all agreed, the services have all agreed on the services we're going to provide.

Senator MURRAY. Thank you very much, and thank you, Mr. Chairman.

Senator JOHNSON. Senator Landrieu.

Senator LANDRIEU. Thank you, Mr. Chairman. Mr. Arny, I'd like to—it's actually a great segue into my questioning because my question is actually about Fort Polk in Louisiana and I'm not sure if you're personally familiar with the space, but it's one of our joint training bases and a very important base for our operations, ongoing and past, as it has been and, of course, will be in the future.

We have over 8,000 soldiers there, but most of our forces that deploy will spend some time at Fort Polk before they leave and there's some almost not real fire but close to it exercises that go on. I've been able to visit the base several times since I've been a senator.

My question is, following up on what Senator Murray said, about the housing for the single barracks, the single enlisted. We have about 60 percent family married, 40 percent single. We've made a lot of progress with the new initiative which I'm pleased to have been a part of for privatization of family housing.

So my question is are you aware of a recent installation status report that shows that 80 percent of the barracks at Fort Polk currently do not meet acceptable ratings under the ISR Quality Standard? Are you aware at the current rate it will be in another 20 years before these renovations have occurred? These barracks were built an average of 35 years ago. So they will have withstood for 50 years, having been built 30 years ago. They're just basic concrete.

I've toured some of them. They're in deplorable condition. They have mold and mildew, but at the rate we're going, it will be 20 years before we can get them any relief under the current budget.

My question is are you reviewing the possibility of some sort of privatization effort like the Navy has undergoing at San Diego for the possibility of some of our Army installations, particularly at Fort Polk?

Mr. ARNY. Yes, ma'am. We've left that generally up to the individual services and I came from the Navy and at one conference, the Army and the Air Force both said they're going to wait for the Navy, and I think we have enough evidence to show what privatization can do and I have been told that the Army indeed at Fort Polk was one of—was the example we talked about, is looking very closely at privatization, and I think if they can figure out the financial aspects of the BAH.

I mean, the down side to that privatization effort is you must give the BAH to the soldier and let him make a choice whether he's going to live in there. On the other hand, the housing he gets is

much, much better, as we've seen in San Diego, also in Norfolk as the Navy's doing a second project in Norfolk, and a third one down in the Jacks-Mayport area.

So I think the answer is yes, I am told the Army is looking at that and we'll be happy to support them in that effort.

Senator LANDRIEU. Okay. Well, I'd like to go a step further. Would you be willing to recommend to the Army a step forward in developing because if they do have some hesitancy, which I understand there is, pressing them to at least explore the option of a pilot that they could test before they decide to move forward and work out whatever kinks there are. I'm sure there will be some. Would you be willing to think about a pilot and would Fort Polk maybe be in a position to serve as one of those pilots?

Mr. ARNY. Given the efforts that they've already made, I think it's definitely a possibility. I'd be happy to. Plus the new installation deputy assistant secretary is a former Navy facilities engineering command, so he has more familiarity.

Senator LANDRIEU. And I understand that family housing would be a greater priority than single housing, but I think that all housing and quality of life issues is very important with a volunteer force and we're trying to retain the best and the brightest and I do believe that these quality of life issues is very, very important and to serve in Iraq, I understand the housing in Iraq actually on the front line is better than these soldiers have when they're at Fort Polk, and there's just not—I just don't think that that is appropriate. So I appreciate that.

My second question, I'm going to ask it now but it really is for the Navy, but because both Senator Hutchison and I are co-chairing something that starts at 11 o'clock, Mr. Chairman, and I have to slip out, I'd like to just place this question to the record and if you, Mr. Arny, would like to respond, that's great. Perhaps the next panel could respond to this in my absence.

We had, as you know, you mentioned Hurricane Katrina and we've been dealing with that now for 3 years. It will be the anniversary in August. Right before Katrina, the BRAC Commission visited New Orleans and in their tour of the country and actually recommended that the Naval Support Activity be realigned.

The Commission stated that if our State would put up some additional funding and the Federal-city project begun on September 30, 2008, the Marine Forces Reserve Headquarters was to be relocated at the Naval Support Activity Base on West Bank property.

The State of Louisiana has moved forward basically on that recommendation. I think that the entire BRAC Commission, there were only two revisions, Mr. Chairman, onsite when the Commission came, and ours was one, because we basically convinced them that their original recommendation would cost the government much more money than what our recommendation was and they accepted it and they made the change. We were only one of two in the country.

So this is following up on that sort of, you know, idea that our locals had, but the problem now is that the marines that are saying that they are open to moving in, the Coast Guard is making this now their headquarters, they're claiming that the burden that

they're going to have to pick up is more than if they would sort of stay where they are. Now where they are is unacceptable.

I know you probably aren't familiar with this exact situation, but could I have your commitment to look into it and see if we could, you know, just make sure the Marines are getting all the information that they need so we can move forward under the recommendation actually of the BRAC Commission?

Mr. ARNY. I'd be glad to.

Senator LANDRIEU. Okay. If you would, and we'll submit more questions along that line, and I appreciate it because the final thing, Mr. Chairman, this Federal-city project is one of the very big projects that we were just about ready to take up when Katrina and Rita hit and the city was devastated.

The great news is this West Bank facility had hardly any damage and was on high ground on the West Bank. So it really is like putting a flag up for this whole region and as the Federal-city project comes together, Coast Guard and Marine Reserves sharing it, it's going to really realign our buildings very nicely and maybe use some of the older buildings that people are moving from to convert to some new opportunities for the region.

So it's more than just a base alignment. It's really helping the region to recover and I'd appreciate some special attention, if you don't mind.

Thank you so much.

Senator JOHNSON. Senator Allard.

Senator ALLARD. Mr. Chairman, thank you. It's good to see you in charge of the committee here.

I have some questions related to the Chemical Depot and as you know,—oh, first of all, Mr. Chairman, I have an opening comment I'd like to make part of the record. Thank you.

Section 8119 of the fiscal year 2008 Defense Appropriation Act mandated that, and I quote out of the act, that "the Department of Defense shall complete work on a destruction of the United States stockpile of lethal chemical weapons, ammunitions, including those stored at Bluegrass Army Depot, Kentucky, and Pueblo Chemical Depot, Colorado, by the deadline established by the Chemical Weapons Convention, and in no circumstances later than December 31, 2017."

Now it's my understanding that the current 2009 MILCON budget of \$134 million for the Assembled Chemical Weapons Alternative, the ACWA, Program, the program that is carrying out—that's the program that's carrying out the destruction of these munitions, does not incorporate the 2017 deadline.

Now, Under Secretary Jonas, the 2009 ACWA budget which includes both MILCON and research and development dollars is roughly equal to the amount appropriated in 2008. Could you confirm for me the current status of the 2009 budget request for the ACWA Program?

ACWA PROGRAM

Ms. JONAS. Thank you, Senator Allard. It's good to see you as well.

We currently have \$65.1 million in the bill and I know this is a high priority for you and I know the deadline has been of interest.

We are currently in the process of evaluating a 2010 baseline. As you know, the services begin building their budgets way before you see them, and we've raised this as an issue to make sure that we've got the right profile for the 2010 baseline.

That's where we are at the moment, but again we have \$65.1 million in the current budget for Pueblo.

Senator ALLARD. Okay. So you don't know for sure whether the amount that you have in there is adequate with the congressionally-mandated 2017 deadline?

Ms. JONAS. I have not spoken directly with Under Secretary Young who has responsibility for this, but I will raise it with him.

Senator ALLARD. I appreciate that.

Ms. JONAS. And I will—get together frequently. I'll raise it with him and let him know of your concern.

I know the Secretary is well aware of this program and has personally engaged with other Senators on it as well. It is high profile and we'll make sure that we deal with it in the 2010 baseline.

Senator ALLARD. Now, if it's not, I have to say it's not, when can Congress expect to receive the completed budget adjustments in order to authorize and appropriate the necessary funds to meet the deadline?

Mr. ARNY. We're required to give you, I think, a semiannual assessment, I'm learning this subject myself, and June 2008, late June 2008 is when we'll have that semiannual report to you.

Senator ALLARD. Okay. Now procedurally, how do you anticipate this taking place? Ms. Jonas, would you perhaps send a letter to the Appropriations Committee to ensure that the fiscal 2009 budget numbers are appropriate in order to comply with the 2017 mandate?

Ms. JONAS. What I would be willing to do, sir, is to re-engage with Mr. Young and have him take a look at it. He's the one that sponsors the program, and we will evaluate it. We certainly are interested in the information that will come forward in the June piece. We estimated the \$65.1 million to be adequate for the current requirement. If it's not, we'll have to look at our options to deal with it.

Senator ALLARD. And will you get a memo or something to us—

Ms. JONAS. Certainly.

Senator ALLARD [continuing]. After that conversation?

Ms. JONAS. Certainly.

Senator ALLARD. We would appreciate it.

Ms. JONAS. We can do that.

Senator ALLARD. Okay. Now earlier this week, I received notice from the ACWA that implementation of some local subcontracts may be delayed at the Pueblo Chemical Agent Destruction Pilot Plant, PCADPP, facility. This delay may occur because it was determined that the total cost for design, construction and overhead associated with the PACDPP would exceed the amount currently authorized by the fiscal year 2003 National Defense Authorization Act.

In order to remedy this situation, I've been informed that DOD has requested an increase in the authorization for the PACDPP in the upcoming MDAA. This is of concern to me not only because of

the potential delay in the destruction of these chemical munitions but also for economic impact on jobs in Colorado.

Under Secretary Jonas, will this issue be factored into the budget readjustments for ACWA and PACDPP that is likely to come later this year?

Ms. JONAS. I'll defer to Mr. Arny. He knows more on this issue. Again, I'm learning the subject as I go along here.

Senator ALLARD. Me, too.

Mr. ARNY. But yeah, yeah. There was a concern expressed by folks. There was—we did look into it and in fact they were reaching the level, the top of their authorization. We have put that request for more authorization in. I'm not exactly sure of the process, I'm learning that myself, but it will be factored in with our ongoing efforts.

Both the ACWA and ourselves are working that to make sure they have the authorization as quickly as possible.

Senator ALLARD. And to what amount do you foresee the overall budget increase for both the ACWA and the PACDPP—

Mr. ARNY. I don't know at this time.

Senator ALLARD [continuing]. In order to fix this problem? You don't know what that will be?

Mr. ARNY. I don't know.

Senator ALLARD. Okay. As soon as you get that number, we'd appreciate that. Communicate it to us again in a memo or something. We'd very much appreciate it.

Mr. ARNY. Will do.

Senator ALLARD. The Defense—I want to talk a little bit about the Defense Access Road at the Pueblo Chemical Plant. This particular project has had some funding delays and apparently its completion has backed up other construction projects at the site because the Defense Access Road involves numerous Federal, State and local agencies planning and coordination has been made much more difficult with these delays.

It is a priority of mine obviously to see this completed from existing MILCON funds which I believe is a component of the reprogramming request allocated for the Defense Access Road.

Are you aware of this DAR reprogramming request?

Mr. ARNY. Yes.

Senator ALLARD. I'm also told, and I'm told it's due to the Appropriations Committee, and could you provide a status update on this request?

Mr. ARNY. With the data I have, we expect to transmit the proposal this month. We're try to move the reprogramming request this month.

Senator ALLARD. Okay.

Mr. ARNY. And we should be able to enable construction in the 2008 construction season.

Senator ALLARD. Okay. Thank you. I have one question on housing, if I might, Mr. Chairman, to complete this, just briefly.

You know, we've had some problems with the housing markets and whatnot, and do you see this creating any problems for your housing programs that you've established at the various installations? Because a lot of it, I know Senator Landrieu was concerned

about privatization. We do a lot of privatization at Fort Lewis—I mean at Fort Carson. She’s concerned about Fort Lewis.

And so we’re wanting to know, do you see any problems with the housing issues that we’re having and how they may impact housing for the bases?

Mr. ARNY. So far, we don’t see that affecting the housing property. In fact, if construction costs go down, that would benefit us in terms of the renovations and where we are recapitalizing the housing.

Senator ALLARD. You anticipate that to drop then?

Mr. ARNY. Right.

ADDITIONAL COMMITTEE QUESTIONS

Senator ALLARD. And do you see any change in department policy as a result of the housing and construction market?

Mr. ARNY. Not today, no, I don’t.

Senator ALLARD. Thank you.

Senator JOHNSON. Secretary Jonas and Mr. Arny, you are excused.

Ms. JONAS. Thank you, Mr. Chairman.

Mr. ARNY. Thank you.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED TO TINA W. JONAS

QUESTIONS SUBMITTED BY SENATOR TIM JOHNSON

BUDGET MANAGEMENT

Question. Secretary Jonas, the fiscal year 2009 Military Construction budget request of \$24.4 billion is a record request. Given all of the moving parts of this request—including BRAC, Grow the Force, and global rebasing—what steps has the Department taken to synchronize the construction of projects among all these initiatives?

Answer. The President and the Secretary challenged the military to transform itself in order to meet current and future threats to America’s security. The Department is using Base Realignment and Closure (BRAC), Grow the Force, and Global rebasing to accomplish this transformation. The Department recognizes the challenges of implementing these initiatives but believes we have the processes in place to ensure success and are taking a balanced approach. For example, in the case of BRAC, the Department initiated a process to develop business plans that establish the requisite actions, the timing of those actions, and the costs and savings associated with implementing each recommendation, including the necessary military construction. In regard to execution of all of these construction projects, the U.S. Army Corps of Engineers and the Naval Facilities Engineering Command have been fully integrated and involved with the development of the Military Construction budget request.

Question. Is it likely that the Army and Marine Corps will need to rely on temporary housing for some of the troops that are relocating due to BRAC, Grow the Force, or global rebasing?

Answer. Temporary or re-locatable buildings are only considered for urgent operational requirements that cannot be met with existing facilities. At the beginning of fiscal year 2008, the Army was using about 10 million square feet of temporary buildings for permanent party and training barracks. The Army is planning to program Military Construction (MILCON) funds through fiscal year 2015 to replace most of these temporary buildings with permanent ones. The Marine Corps expects that force structure changes will also require the use of temporary buildings on a limited basis.

SUPPLEMENTAL—WARRIOR TRANSITION UNITS

Question. What more can the Defense Department do to ensure that members of the Guard and reserve who are wounded in combat—and their families—receive the same level of transitional care that is being provided to our active duty troops?

Answer. The Department of Defense (DOD) has formed a strong partnership with the Department of Veterans Affairs (VA), other Federal agencies, and professional advocacy groups to provide outreach and prevention programs to Reserve and National Guard members. Military medical treatment facilities deliver specialty care and DOD partners with VA to provide state-of-the-art care at polytrauma centers, as well as other rehabilitative care and transition assistance programs for wounded warriors in all components. Additionally, Reserve and National Guard members can make use of a range of extended TRICARE health benefits.

The intent of these arrangements is to provide the same level of care to all. Ensuring that we meet the standards is the work of the Senior Oversight Committee, chaired by the Deputy Secretaries of Defense and Veterans Affairs.

Question. Does OSD support this proposal, and if so, why were more centers not included in the Supplemental?

Answer. The Department continues to support increased care for our wounded, ill and injured Service members. The Warrior Transition construction requirements included in the fiscal year 2008 supplemental request reflect the most urgent needs based on the amount of construction required and the timetable for unit restationing. The Department is still reviewing the cost estimates and locations of additional Warrior in Transition units for inclusion in future requests.

Question. Is there a similar program for wounded Marines?

Answer. In April 2007, the Marine Corps Wounded Warrior Regiment was activated to achieve unity of command and effort in order to develop a comprehensive and integrated approach to Wounded Warrior care. There are two Wounded Warrior Battalions headquartered at Camp Lejeune, North Carolina, and Camp Pendleton, California. The Battalions include liaison teams at major military medical treatment facilities, Department of Veterans Affairs Poly-trauma Centers and Marine Corps Base Naval Hospitals. The Battalions work closely with our warfighting units to ensure our wounded, ill and injured are cared for and continue to maintain the proud tradition that “Marines take care of their own.”

Question. When do you expect to request funding for these additional centers?

Answer. The Department is still reviewing the cost estimates and locations of additional Warrior in Transition units for inclusion in future requests.

 QUESTIONS SUBMITTED BY SENATOR KAY BAILEY HUTCHISON

JOINT BASING

Question. Ms. Jonas, one of the BRAC decisions was to establish joint bases where it is geographically feasible. I understand there are twelve test joint bases in the plan, one of which will combine Lackland AFB, Randolph AFB and Ft Sam Houston into one such base under the jurisdiction of the Air Force. I would like you to comment on how the test is progressing and what you are discovering.

Specifically, I would like to know how the Department will handle requests for Milcon projects in another Service's budget? Would you tell us what the plan for this is?

Answer. The Department has recently completed its joint basing guidance for facilities investment, which addresses funding responsibilities for supporting and supported components. The policy prescribes responsibility for construction funding to the component generating the construction requirement. Construction funding in support of “installation support” missions is the responsibility of the supporting component, and construction funding in support of all other missions is the responsibility of whichever component is responsible for that mission. Regardless of the funding organization, the supporting component is responsible for executing the construction project as well as subsequent sustainment, restoration, and modernization.

INCREMENTAL FUNDING

Question. Doesn't it make sense to allow the Services to incrementally request funds for a project if we approve the entire project and agree to incrementally fund it? Wouldn't that help everyone?

Answer. It is the Administration's current position that military construction projects be fully funded, except for very large projects that have a major national

security impact. This is intended to ensure the maximum flexibility of future military construction budgets.

Question. Are you doing anything with OMB to work out a solution for this problem that could help everyone?

Answer. We are planning to revisit the issue with OMB as we develop the fiscal year 2010 President's Budget.

USE OF THE COMMANDER CONTINGENCY ACCOUNT (CCA)

Question. Ms. Jonas, When I visited Bagram Air Base, Afghanistan in February, Major General Rodriguez told me that since we are declaring Bagram as an "Enduring Base"—meaning we plan to be there for the foreseeable future—he can no longer use funds from the CCA account. According to the Air and Ground unit Commanders at Bagram, this restriction is restricting their ability to react quickly to emerging construction needs.

What is the Department doing to request an exception for places such as Bagram when we are operating on a contingency basis from an enduring location, and what can we do to help?

Answer. The current authorization language for the use of the Contingency Construction Authority (CCA) does not permit the use of this authority for projects at enduring locations. Bagram has been identified by the Department in the Overseas Master Plan as an enduring location. The Department submitted an fiscal year 2009 legislative proposal that would allow for the Secretary of Defense to waive the restriction on the use of CCA at enduring locations if the Secretary determines that construction of additional capabilities or capacity at such installations located in Afghanistan are vital to support urgent operational requirements

QUESTION SUBMITTED BY SENATOR MITCH MCCONNELL

Question. The report due on June 30, 2008 will be the first opportunity the Department of Defense has had to lay out how it plans to comply with the 2017 deadline mandated by this statute. Included in these plans will be funding levels that the Department believes it needs to comply with the law. If in fact the Department decides it needs funding above the fiscal year 2009 request to comply with the law, will this need for additional funding be conveyed to Congress through a formal budget amendment? If not, by what means will the Department formally request such additional funds?

Answer. As required by Section 8119 of the fiscal year 2008 DOD Appropriations Act, the Department is currently reviewing various options (to include cost estimates) and the feasibility for completing the destruction of the chemical weapons stockpile by 2012 and 2017. The assessment of these options will be reflected in the semi-annual report to Congress in late June 2008, and will be considered during the development of the fiscal year 2010 President's Budget request.

QUESTIONS SUBMITTED TO WAYNE ARMY

QUESTIONS SUBMITTED BY SENATOR MARY L. LANDRIEU

FORT POLK BARRACKS

Question. Picerne Military Housing proposed privatization pilot project would require no up-front investment from the Army, but would have to provide \$26 million in Basic Housing Allowance every year for the life of the 50 year contract with Picerne Military Housing. The Navy currently has 2 junior enlisted barracks privatization pilot projects underway in San Diego and Hampton Roads Port VA.

Are you aware of the current conditions of the Fort Polk barracks?

Answer. Yes, we are aware of the condition of the Fort Polk barracks and we are encouraged that the Army has committed significant funding to renovate the barracks including correcting mold problems. Regarding the photographs of rooms of two Fort Polk barracks buildings you sent to Secretary of the Army Geren, the Army informed us that the Fort Polk Garrison verified that Building 1950 is vacant and programmed for renovation. The four rooms in Building 2272 are vacant and off-limits to any Soldier. All other rooms in Building 2272 were inspected by indoor air quality inspectors and will continue to be monitored to ensure the rooms meet health and safety standards. The Army also informed us that subsequent to the hearing, a 100 percent barracks inspection for life, health, and safety issues was

conducted at Fort Polk and all Soldiers were found to be living in safe and acceptable barracks.

Question. It is estimated that \$188 million will be needed to bring the barracks up to acceptable living standards, in addition to the annual \$15 million in sustainment funding every year. Would you consider a pilot project to privatize the junior enlisted barracks at Fort Polk?

Answer. We encourage the Services to pursue barracks privatization wherever it is economically feasible and consistent with their mission. The Army currently has limited their single Soldier housing privatization efforts to senior Soldiers (Staff Sergeant and above) and then only at locations where there are no available or affordable rentals off post. While privatizing all the barracks at an installation (like at Fort Polk) could be problematic, because even the most junior Soldiers could choose to live off-base, we believe the Army could benefit from initially pursuing a few limited barracks privatization projects for junior enlisted Soldiers similar to the Navy's pilot projects. However, even with a pilot barracks project of limited scope, the Army is concerned that privatization would hinder Army Ethos, unit cohesion, esprit de corps, and development of unit leadership and warrior skills.

Question. If not, what is your plan to rectify the living quarters for these soldiers, and do you believe this to be a cheaper and more efficient alternative to privatization?

Answer. Funding has been provided to Fort Polk for renovations to the heating ventilation and air conditioning systems, as well as funding for additional preventive maintenance of Building 2272. The Fort Polk Garrison Command continues investing maintenance funds to keep buildings from deteriorating while awaiting renovation through the Barracks Upgrade Program. The Navy has demonstrated that barracks privatization is less costly than the Military Construction alternative in the San Diego and Hampton Roads pilot projects. However, those projects are authorized the use of a partial housing allowance in their pilot legislation (title 10, United States Code, section 2881a).

Question. With the Army growing the force to 95,000 troops and the facilities already behind the funding curve how will the Department address these funding shortfalls in Military Construction to maintain and bring the barracks up to code?

Answer. The Army's tightly synchronized Military Construction (MILCON) program supports the successful transformation of the Army to a U.S.-based Modular Force. Facility support of initiatives, including Base Realignment and Closure (BRAC), Grow the Force, and global rebasing, is key to this transformation. To achieve the Army's goals, installation facility support plans are in place to accommodate Soldiers while minimizing turbulence.

The Army analyzed several scenarios and instituted facility support plans with programmed and timely MILCON as the centerpiece of their success. As a result, currently scheduled MILCON plans address maintaining existing barracks and completion of the permanent party barracks buyout plan.

Question. Can you give an update on how well the San Diego Privatization project for Single Sailors is going? Has there been any case where non-military personnel have been allowed to rent these rooms?

Answer. The Navy awarded its first unaccompanied housing privatization project in San Diego, using the pilot authorities (title 10, United States Code, section 2881a) in San Diego in December of 2006. The project included the construction of 941 new two-bedroom/two-bath apartments for unaccompanied Sailors and the privatization of 254 existing unaccompanied housing units (known as "Palmer Hall"). Construction of the new apartments is on-going and is expected to be complete by the Spring of 2009. The privatization of existing units has been extremely successful. The housing has been virtually fully occupied with units rented by targeted unaccompanied military personnel. There have been no non-military occupants. There has been a dramatic improvement in satisfaction among the residents of Palmer Hall, earning the project an industry award for customer service.

QUESTIONS SUBMITTED BY SENATOR ROBERT C. BYRD

FORMERLY UTILIZED DEFENSE SITE—AMERICAN UNIVERSITY EXPERIMENT STATION/
SPRING VALLEY PROJECT

Question. I commend the Army Corps of Engineers (Corps) for recent improvements in its efforts to remediate areas in Spring Valley that are saddled with hazardous World War I Army Experiment Station (AES) debris. However, it is hard to overlook the slow progress and incomplete nature that marked the Corps' earlier clean-up efforts. In many respects, it was frustration over the ineffective work of the

1990's and early 2000's that prompted Congress to direct significant resources to the program and request that the Corps complete the clean-up process by 2011. There are numerous examples of areas that the Corps has declared clear, only to be called back when the grounds were found to be littered with harmful material. Please explain to the Committee the steps being taken by the Corps today to determine the location of other burial/disposal sites on the campus; the nature and extent of additional material located on those sites, and the program of remediation to remove that material in its entirety.

Answer. The Army continues to make the best use of available historical and technical tools, but the extensive development in the area since the early 1900s makes this investigation a challenge. In full consultation with the public in the surrounding community, University, and the regulatory agencies, the Army has made every effort to identify areas on the site that require additional investigation and has either completed these actions or is actively engaged in investigations or clean-ups. As new information becomes available, it is shared with University officials and other stakeholders, and the next steps towards project completion are planned in partnership with regulatory agencies.

Question. While difficult to quantify, there is no doubt that the Corps work on the AES Spring Valley site has seriously disrupted American University campus operations and, as a result, created direct and indirect financial hardship for the institution. Has the Corps made any effort to ascertain the financial impact that current and past clean-up activities have had on the University?

Answer. The Army has coordinated scheduling of actions with American University (AU) on their campus in order to minimize impacts to the University while making progress on the restoration work and ensuring safety. In areas where this work involves movement of soils or disturbance of property, the Army conducts restoration activities in accordance with the rights-of-entry granted by the University to the Army.

Question. One of the unfortunate facts that the current clean-up program has brought to light is the inherent uncertainty of the cleanup process. Please detail for the Committee the limitations of today's technology to identify the location and properties of the material which may still remain on the campus and in the surrounding neighborhood.

Answer. The Army makes the best use of available historical and technical tools in conducting response actions. While the historic record contains thousands of documents that describe activities that were conducted on the Spring Valley Formerly Utilized Defense Site, there remain uncertainties about location and detail of operations that were conducted. The Army is employing the best available subsurface detection technology and through its extensive network of subject matter experts, and highly specialized research centers, continues to evaluate new technologies for implementation that may enable better understanding of subsurface conditions, including the existence of non-metallic anomalies, such as laboratory glassware.

Question. Upon completion of the current remediation program, and given the uncertainty noted above, what assurances of further remediation will the Corps provide American University should new discoveries of buried World War I or II munitions, chemicals, and/or potentially harmful lab equipment be made? Is the Corps prepared to commit the resources needed to complete the work in an expedited manner?

Answer. Any future discoveries of releases related to historic Army activities at the Spring Valley Formerly Used Defense Sites will be carefully evaluated, and, if additional action is required, the Army will seek the necessary resources and take action to protect human health and the environment in accordance with applicable laws. If future actions are required, they will be completed as promptly as possible and will include frequent communication with regulators and other stakeholders, and with full public involvement.

Question. Notwithstanding the uncertainty of potential discoveries at the Radio Tower, the Beeghly building, and the playing fields, do you believe that the 2011 target completion date is still accurate? Please provide a timeline indicating anticipated work remaining at the site, when that work is scheduled to take place, and how much each segment of the clean-up is anticipated to cost.

Answer. Barring a major new discovery, the target completion date remains 2011. Investigations and cleanup specific to the American University campus are scheduled for completion in fiscal year 2009, with work on properties outside of the University scheduled for completion in fiscal year 2010. The site-wide Remedial Investigation/Feasibility Study, the final component of the work as currently identified, is expected to be completed in fiscal year 2011. As reported in the 2007 Defense Environmental Program Annual Report to Congress, the cost-to-complete estimate from fiscal year 2008 to completion is approximately \$36.4 million.

Question. With respect to recent findings of extremely high arsenic readings on Glenbrook Road, have the findings been consistent with the Corps expectations? Do the findings suggest that there may be additional burial sites that were not contemplated?

Answer. The arsenic levels identified at the 4835 Glenbrook Road property are consistent with historical maps which show that storage of chemicals did occur in the area. Areas of elevated arsenic are being remediated and work to date does not suggest the presence of additional burial sites.

Question. With respect to the resumption of activities adjacent to the Korean Embassy on Glenbrook Road, was this work anticipated when the Corps withdrew from the site many years ago?

Answer. When the original work in the area adjacent to the Korean Ambassador's residence was conducted in 2002, the property owner at 4825 Glenbrook Road granted right-of-entry to the Army to conduct the investigation, but would not renew it to allow completion of the work when the original right-of-entry expired. When ownership of the property later changed hands, the Army was granted access to complete the necessary actions and resumed work at this location in 2007.

Question. What guarantees can the Corps offer that when it leaves the AES Spring Valley site, the land will truly be clear of buried munitions and chemicals, including those located under the Public Safety Building and the Glenbrook Road properties?

Answer. The efforts by the Army on this project represent a responsible acknowledgement of the challenges posed by cleanup of an extremely complex legacy site. A thoughtful, iterative, and deliberate approach is being taken on the project, in full partnership with the U.S. Environmental Protection Agency, the D.C. Department of the Environment, American University, and community involvement. When risks are identified, response actions are conducted by the Army in accordance with applicable laws to meet standards that are protective of human health and the environment, in consultation with regulators, project stakeholders, and the public.

DEPARTMENT OF THE NAVY

STATEMENT OF HON. B.J. PENN, ASSISTANT SECRETARY OF THE
NAVY, INSTALLATIONS AND ENVIRONMENT

ACCOMPANIED BY:

MAJOR GENERAL EUGENE G. PAYNE, JR., ASSISTANT DEPUTY
COMMANDANT FOR INSTALLATIONS AND LOGISTICS (FACILI-
TIES)

REAR ADMIRAL MARK A. HANDLEY, DEPUTY COMMANDER, NAVY
INSTALLATIONS COMMAND

Senator JOHNSON. I'm pleased now to welcome our second panel of witnesses. The Honorable B.J. Penn, Assistant Secretary of the Navy; Major General Eugene Payne, Jr., Assistant Deputy Commandant for Installations and Logistics; and Rear Admiral Mark Handley, Deputy Commander for the Navy Installations Command.

Before we begin, I note that there are votes scheduled to begin at 11:40.

Gentlemen, we look forward to your testimony. Mr. Penn, proceed.

Mr. PENN. Thank you, Mr. Chairman. Chairman Johnson, members of the subcommittee, it's a privilege to come before you today to discuss the Department of the Navy's installation efforts.

I am joined this morning by Major General Payne, the Marine Corps' Assistant Deputy Commandant for Installations and Logistics, and Rear Admiral Handley, Director of the Navy's Shore Readiness Division.

I would like to touch on a few highlights in this year's budget request, the largest facilities budget in well over 15 years. Our request is a robust \$14.3 billion or 9.6 percent of the Department's TOA.

Most apparent is our increased infrastructure investment, both in SRM and construction accounts. The increase in construction runs about 45 percent in MILCON for a total of \$3.2 billion and 13 percent in family housing for a total of \$383 million.

This continues the trend begun last year with the Marine Corps' "grow the force" initiative to ensure their bases are ready to house and operate with additional end strength.

Our Military Construction Programs also include a number of projects to enhance the quality of life of sailors and marines, including four fitness centers, six child development centers, and four enlisted dining facilities.

Our fiscal year 2009 budget also includes the second increment of two MILCON projects that were proposed last year for full funding by the administration but selected by Congress for incremental funding. While we did not consider any of the projects in our fiscal year 2009 program to be viable candidates for incremental funding, we have taken the lead in drafting criteria for incrementing costly construction projects and are working with DOD and OMB.

We commit to work with the Congress to re-establish mutually acceptable and objective criteria in time for the next budget cycle.

Fiscal year 2009 marks the first year since 2005 that we've asked for appropriated funds for prior BRAC. We've been able to finance all or part of prior BRAC with land sale revenue, but we've used all but \$25 million which we are applying to this year's program.

Our fiscal year 2009 request includes a \$179 million for prior BRAC. We will need appropriated funds in future years to complete our clean-up work, despite the prospect of some limited revenue for the sale of Roosevelt Roads, Puerto Rico, and other small parcels we've disposed of. We have disposed of 91 percent of the prior BRAC properties, so there was little left to sell and the real estate market is not as lucrative as it was several years ago.

With respect to the BRAC 2005 Program, we have several good news items to share. Nearly all impacted communities have established local redevelopment authorities to guide local planning and redevelopment efforts.

We were able to facilitate the reversion of the former Naval Station Pascagoula to the State of Mississippi last June and we've been able to hold down our cost increases to a modest 2 percent for the implementation period of 2006 through 2011.

However, our ability to meet the statutory deadline of September 15, 2011, hinges on the prompt restoral of the fiscal year 2008 reduction of \$939 million. I ask the committee's support to help restore these funds as soon as possible.

We continue to improve where our sailors, marines and their families live. We have awarded a second barracks privatization project in December 2007, this one in Hampton Roads, Virginia, and we're almost finished with evaluating our third pilot project in the Jacksonville-Mayport area.

Surveys of our residents, both in family and unaccommodated housing, show that satisfaction has increased significantly since privatization began. As a department, we emphasize and participate in communication at all levels of management. The objective is to identify issues early and take prompt corrective action when required.

We have made significant progress in the past year in planning for the relocation of the marines from Okinawa to Guam. We established the Joint Program Office both at headquarters here in Washington and a forward element on Guam. The environmental impact statement for Guam is underway with the targeted Record of Decision in January 2010, in time for construction in fiscal year 2010.

We are working closely with our counterparts in the Government of Japan to prepare the details for construction requirements, their phasing and funding priorities, and we are working with our domestic partners, the Government of Guam, the Department of the Interior, OMB, and other Federal agencies to ensure that the island can meet the challenges of such a concentrated influx of people and workload.

PREPARED STATEMENT

Finally, it has been an honor and privilege to serve this great Nation and the men and women of our Navy and Marine Corps team, both the military and civilian personnel and their families.

Thank you for your continued support and the opportunity to testify before you today, sir.

[The statement follows:]

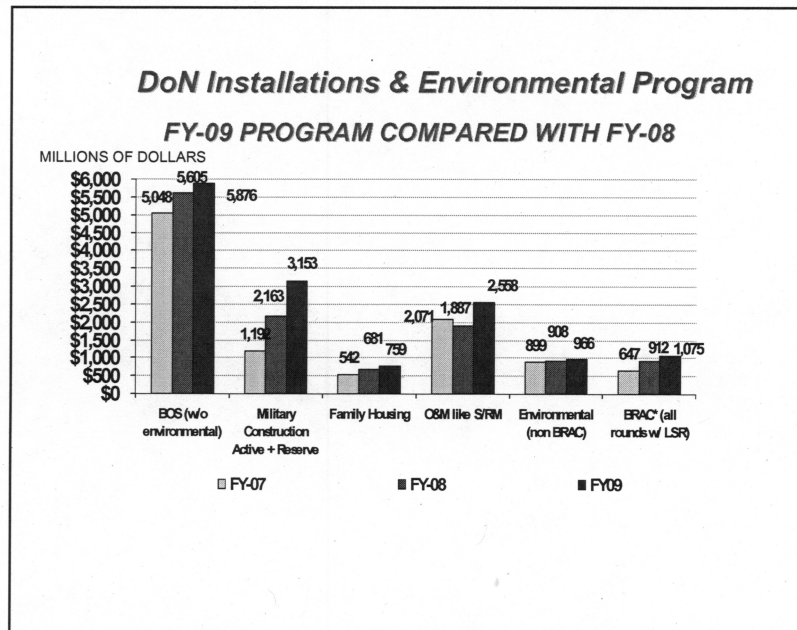
PREPARED STATEMENT OF HON. B.J. PENN

Chairman Johnson, Senator Hutchison, and members of the Committee, I am pleased to appear before you today to provide an overview of the Department of Navy's investment in its shore infrastructure.

THE NAVY'S INVESTMENT IN FACILITIES

We live in an increasingly globalized and interlinked world—through our economic, communication, and financial networks, yet a world in which rogue nations, terrorists, and even the forces of nature disrupt the delicate balance between war and peace on a daily basis. A Cooperative Strategy for 21st Century Seapower establishes that we must not only be capable of winning wars, but must also strive to prevent war by fostering the collective security of all by working with our inter-agency, international, and private sector partners.

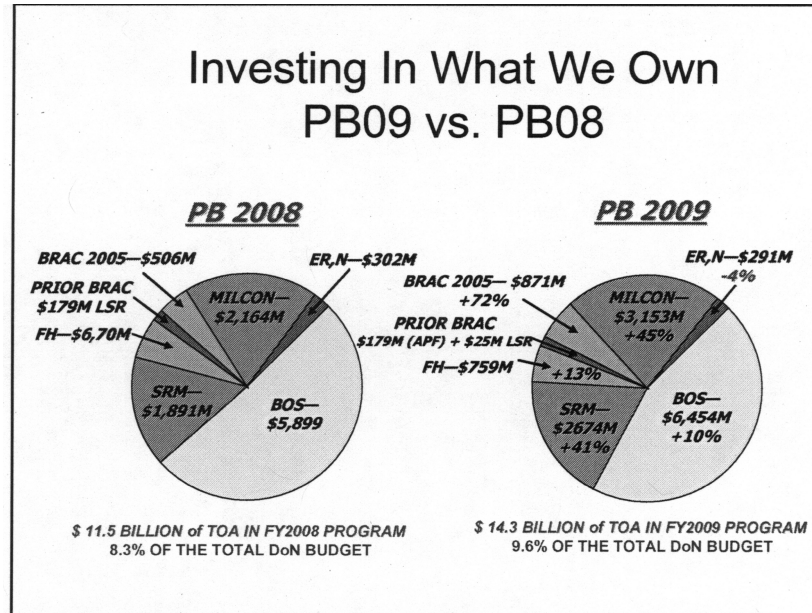
To fulfill this challenge we must ensure our Sailors and Marines have the training, education, and tools necessary to prevail in conflict and promote peace abroad. The Department of Navy's (DoN) investment in our shore infrastructure represents our deepening commitment to this goal. Our installations are where we homeport the Fleet and her Marine forces, train and equip the world's finest Sailors and Marines, and develop the most sophisticated weapons and technologies. Our fiscal year 2009 shore infrastructure baseline budget totals \$14.3 billion, representing 9.6 percent of the DoN's fiscal year 2009 baseline request of \$149 billion.



The Base Operating Support (BOS) request of \$6.5 billion, excluding environmental, comprises the largest portion of the Department's facilities budget request. This account funds the daily operations of a shore facility, e.g., utilities; fire and

emergency services; air and port operations; community support services; custodial and grounds maintenance costs.

Our fiscal year 2009 request of \$6.5 billion for BOS reflects a 9.4 percent increase from the fiscal year 2008 request. The Navy request of \$4.3 billion includes an increase of \$348 million over last year's request and matches the budget request with recent execution performance. The Marine Corps request is \$2.1 billion, an increase of \$207 million over last year's request, and is consistent with their execution experience.



The fiscal year 2009 military construction (active + reserve) request of \$3.2 billion is \$1.1 billion more than the fiscal year 2008 request. This is a 50 percent increase above the fiscal year 2008 request, and nearly three times the size of the fiscal year 2007 request. This unprecedented growth in Department's military construction request is primarily due to the Marine Corps' "Grow the Force" initiative.

The fiscal year 2009 Family Housing request of \$759 million represents a 13 percent increase over our fiscal year 2008 request. This growth is also spurred by the need for additional family housing for the Marine Corps' Grow the Force initiative. The Navy and Marine Corps have continued to improve their overseas housing, which is not eligible for privatization as has been done in the United States.

Sustainment, Restoration and Modernization (S/RM) includes military construction and operation and maintenance funds. Our fiscal year 2009 request of \$2.7 billion funds the Department at 90 percent of the DOD sustainment model requirement and includes only the amount of S/RM funded with Operations and Maintenance. It represents a 41 percent increase over our fiscal year 2008 request to improve sustainment of existing facilities and rehabilitate older buildings to meet current standards.

Our fiscal year 2009 request of \$966 million for environmental programs at active and reserve bases is comprised of operating and investment appropriations,¹ roughly \$58 million more than our request for fiscal year 2008 due to higher compliance and conservation costs.

Our BRAC program consists of environmental cleanup and caretaker costs at prior BRAC locations, and implementation of BRAC 2005 recommendations.

Our fiscal year 2009 prior BRAC program consists of \$179 million in appropriations and \$25 million in remaining land sales revenue from past prior BRAC property sales. This is the first time since fiscal year 2005 that the Department has requested appropriated funds for prior BRAC as we have exhausted our land sales

¹ Including the following accounts: RDT&E,N; MC,N; OP,N. Excludes BRAC environmental.

revenue from previous sales. We anticipate some limited future revenue as we move to dispose of the former Naval Station Roosevelt Roads in Puerto Rico and some other smaller property sales. We will use revenue from these future sales to accelerate cleanup at the remaining prior BRAC locations.

The fiscal year 2009 budget includes a request of \$871 million to implement the BRAC 2005 recommendations. We are proceeding apace with implementation; however, there has been considerable turbulence in execution in part due to the late receipt of Congressional appropriations. The fiscal year 2008 \$939 million Congressional reduction to this DOD account, for which the Navy share is \$143 million, adds additional execution concerns which I will address later in the statement. I urge the Congress to promptly restore the fiscal year 2008 reduction.

Here are some of the highlights of these programs.

MILITARY CONSTRUCTION

The DoN's fiscal year 2009 Military Construction program requests appropriations of \$3.2 billion including \$239 million for planning and design and \$13.7 million for Unspecified Minor Construction.

The active Navy program totals \$1.1 billion and includes:

- \$176 million to fund five waterfront projects: Wharf Upgrades in Diego Garcia to support stationing of a Land-class tender; Berth Lima Conversion at Naval Air Station North Island, CA to accommodate homeporting an additional 3rd nuclear powered aircraft carrier, subject to the completion of an ongoing Supplemental Environmental Impact Statement; the second increment of the Magnetic Silencing Facility in Naval Station, Pearl Harbor, HI; a pier replacement project at Submarine Base New London, CT; and Improvements to Alpha Wharf at Naval Station Mayport, FL, to make structural and utilities repairs to the existing bulkhead.
- \$62 million to fund three airfield projects: the second increment of the Hangar 5 Recapitalization at Naval Air Station, Whidbey Island, WA; an Aircraft Maintenance Hangar and Aircraft Parking Apron at Camp Lemonnier, Djibouti.
- \$60 million to fund four expeditionary operations projects, including headquarters for the 25th Naval Construction Regiment in Naval Construction Battalion Center, Gulfport, MS; two projects supporting Joint Forces Command, one in Naval Station Pearl Harbor to build a Deployment Staging Area and another at MacDill Air Force Base, FL to construct a Communications Squadron Equipment Facility.
- \$111 million to fund two training projects: a Special Programs Barracks to conduct remedial training at Recruit Training Command, Great Lakes, IL; and an Integrated Training Center for the P-8A, the replacement for the Maritime Patrol aircraft.
- \$102 million to fund two weapons related projects: the 5 of 7 increments of the Limited Area Production and Storage Complex at Naval Submarine Base, Bangor, WA; and the second increment of the Kilo Wharf Extension in Guam.
- \$91 million to construct four research and development facilities, including a new laboratory in the District of Columbia that will consolidate 17 separate labs conducting research in unmanned systems.
- \$60 million to support ship maintenance operations, including dredging the Norfolk Harbor Channel to enable carriers to navigate up the Elizabeth River to Norfolk Naval Shipyard without risk to the propulsion system.
- \$268 million to increase the quality of life for our Sailors and their family members, including two BEQs, five Child Development Centers, and 3 Fitness Centers.
- \$57 million for planning and design efforts.

The active Marine Corps program totals \$2 billion, a \$989 million increase over the fiscal year 2008 Military Construction and GWOT requests. This program includes:

- \$1.3 billion for facilities to support the "Grow the Force" initiative, which I will discuss in greater detail below;
- \$312 million for the Marine Corps BEQ Initiative to build over 3,600 spaces and an additional \$856 million in the Marine Corps Grow the Force to build over 8,700 permanent party/trainee spaces. The total funding devoted to Bachelor Enlisted Quarters is \$1.2 billion.
- \$133 million in operations and training facilities and an additional \$121 million in the Grow the Force initiative funds Military Operations in Urban Terrain facilities at 29 Palms, CA, and Ranges at Camp Pendleton, CA, and Camp Lejeune, NC; Academic training facilities for The Basic School at Marine Corps Base Quantico, VA, the School of Infantry at Camp Pendleton, CA, and the Ma-

rine Aviation Weapons and Tactics Squadron at Marine Corps Air Station Yuma, AZ; operational facilities for V-22 aircraft support at Marine Corp Air Station Miramar and Marine Corps Air Station New River, NC, and apron space at Marine Corps Air Facility Quantico, VA.

- \$36 million and an additional \$73 million accelerated with the Marine Corps Grow the Force initiative funds Quality of Life facilities such as enlisted dining facilities at Marine Corps Air Station, New River, NC and Camp Lejeune, NC, and a Child Development Center at Camp Lejeune, NC;
- \$64 million and an additional \$62 million from the Grow the Force initiative funds new recruit quarters at Marine Corps Recruit Depot Parris Island, SC and Marine Corps Recruit Depot San Diego, CA as well as Student Officer Quarters for The Basic School at Marine Corps Base Quantico, VA;
- \$53 million in Grow the Force funding will accelerate additional utility infrastructure improvements at Camp Pendleton, CA.
- \$67 million and an additional \$10 million accelerated from our Grow the Force initiative funds aircraft maintenance facilities at Marine Corps Air Facility Quantico, VA, Ordnance Facility at Marine Corps Air Station Beaufort, SC and Communications and Electronics Maintenance Facilities and Regimental Maintenance Facilities at Camp Pendleton, CA.
- \$44 million supports other facilities such as the replacement of the 2nd Marine Air Wing Headquarters facility at Marine Corps Air Station Cherry Point, NC, destroyed by fire in 2007, a satellite fire station for Marine Corps Air Station Miramar, CA; and road improvements for entry into Marine Corps Base Quantico, VA.
- \$183 million for planning and design efforts.

The Navy and Marine Corps Reserve Military Construction appropriation request is \$57 million to construct a total of five reserve centers: two Navy; two Marine Corps; and one joint Armed Forces center.

Marine Corps Grow the Force

To meet the demands of the Global War on Terrorism (GWOT) as well as the uncertainty of our Nation's security environment, the Marine Corps must be sufficiently manned, well trained, and properly equipped. Like the Cold War, the GWOT is a generational struggle that will not be measured by the number of near-term deployments or rotations; it is this long-term view that informs our priorities and plan for growth.

To fulfill its obligations to the Nation, the Marine Corps will grow its personnel end strength to 202,000 Active Component Marines. This increase will enable the Marine Corps to train to the full spectrum of military operations and improve the ability of the Marine Corps to address future challenges in an uncertain environment. This growth will enable the Marine Corps to recover its ability to respond in accordance with timelines outlined in Combatant Commander war plans—thereby reducing operational risk. It will also relieve strain on those superb Americans who have volunteered to fight the Nation's battles. This growth includes:

- Adequate expansions of our infrastructure to provide for our Marines, their families, and their equipment; and
- The right mix of equipment for the current and future fight.

Exacerbating our requirements, the Marine Corps for many years funded only its most critical needs. As a result, Marine Corps installations are in a poor position to properly house and operate with additional Marines. Most of the efforts in fiscal years 2007, 2008 and proposed 2009 accelerate non-unit specific facilities which benefit all those aboard the installation—such as bachelor quarters, family housing, ranges, operational facilities, and landfills. This will assist in getting our installations ready to support our Grow the Force initiative. Beginning in fiscal year 2010, we are planning facility programs to support the final unit specific end-strength growth. Unit-specific construction will begin in fiscal year 2010 in concert with the expected completion of the National Environmental Policy Act review. Because Marines will begin to arrive before construction at many locations is complete, the Marine Corps is planning to lease, or purchase temporary support facilities.

As a result of the rapid, but rigorous planning process, the Marine Corps submitted its end-strength growth stationing plan to Congress in October 2007. Our proposed fiscal year 2009 request is based on that stationing plan. This plan will ensure that adequate facilities are available to support the phase-in and Full Operating Capability of a 202,000-Marine Corps while meeting our environmental stewardship requirements.

Incrementally funded MILCON projects

Our fiscal year 2009 budget request complies with Office of Management and Budget Policy and the DOD Financial Management Regulation that establishes criteria for the use of incremental funding. Furthermore, we do not consider any of the projects in our program to be viable candidates for incremental funding based on the mutual understanding between the Congress and the Department of Defense.

The DOD and OMB commit to work with the Congress to reestablish mutually acceptable and objective criteria for the funding of DOD military construction projects.

Meeting the Energy Challenge

In August 2006, I directed that all new Department of Navy facilities and major renovations be built to U.S. Green Building Council "LEED Silver" standards starting in fiscal year 2009. In addition, the Energy Policy Act of 2005 set new standards for energy performance in Federal facilities, including a 30 percent energy reduction over current design standards and the specification of devices that measure and reduce energy consumption. A modest 3 percent investment will contribute to the reduction of life cycle costs of our facilities and will improve the quality of life of our personnel through better indoor environmental air quality and improved levels of comfort within the facilities.

The Continued Need for a Mid-Atlantic Outlying Air Field

The Navy has decided to terminate the draft Supplemental Environmental Impact Statement (SEIS) that conducted further court-directed analysis at five alternative sites for a new Outlying Landing Field (OLF) to support introduction of F/A-18 E/F (Super Hornet) aircraft on the east coast. The Navy will prepare a new Environmental Impact Statement (EIS) under the National Environmental Policy Act (NEPA) that analyzes five new potential OLF sites. This decision followed careful consideration of the public comments received on the draft SEIS, review of new information provided by the State of North Carolina and the Commonwealth of Virginia, and a reassessment of the Navy's operational requirements. It is consistent with the action taken by the Congress in the fiscal year 2008 National Defense Authorization Act to rescind the authority to construct the OLF at Site C in Washington County, North Carolina. The new EIS will analyze potential environmental impacts at three sites in Virginia, and two sites in North Carolina that were provided by the respective States. Based on our evaluation of available information, these new sites each have operational, environmental, and population characteristics that make them viable site alternatives. The EIS will further analyze potential environmental impacts at each location and will result in a future decision about a new preferred OLF site. We expect this process will take about 30 months, so we have not requested any construction funds in fiscal year 2009. The five sites analyzed in the draft SEIS, including the Washington County location, are no longer under consideration as potential OLF sites.

The OLF is required to satisfy training capacity requirements under the Fleet Response Plan, and to reduce the impacts of encroachment on operations at existing facilities. While recent actions initiated by jurisdictions in the vicinity of Naval Air Station Oceana and Navy Auxiliary Landing Field Fentress in response to recommendations of a Joint Land Use Study may mitigate further encroachment, both capacity and encroachment continue to form the basis for the OLF requirement. Throughout this process the Navy will continue to work closely with the Commonwealth of Virginia and the State of North Carolina. The Navy believes that by working with State and local officials, we can understand their perspective on the issues and seek common ground on ways to mitigate impacts and identify potential benefits.

FACILITIES MANAGEMENT

Facilities Sustainment, Restoration and Modernization (SRM)

The Department of Defense uses a Sustainment model to calculate life cycle facility maintenance and repair costs. These models use industry-wide standard costs for various types of buildings and geographic areas and are updated annually. Sustainment funds in the Operation and Maintenance accounts are used to maintain facilities in their current condition. The funds also pay for preventative maintenance, emergency responses for minor repairs, and major repairs or replacement of facility components (e.g. roofs, heating and cooling systems).

SUSTAINMENT

[Percent]

	Fiscal year		
	2007	2008	2009
USN Budget	95	83	90
USN Actual/Plan	91	83
USMC Budget	93	93	90
USMC Actual/Plan	113	111

Restoration and modernization provides major upgrades of our facilities using Military Construction, Operation and Maintenance, Navy Working Capital Fund, and Military Personnel funds. The DOD uses a recapitalization metric to gauge investment levels. The “recap” metric is calculated by dividing the plant replacement value by the annual investment of funds and is expressed in years. The DOD goal is to attain a 67-year rate by fiscal year 2008. This continues to be a relatively coarse metric, as demonstrated by the effect of past Supplemental funds, BRAC construction projects, and recap projects to support Grow the Force. The Navy and Marine Corps continue to work with the Office of the Secretary of Defense and the other Components to develop a recap model similar to the Sustainment model, planned for release in the next budget cycle.

RECAP YEARS

	Fiscal year		
	2007	2008	2009
USN Budget	83	63	50
USN Actual/Plan	62	60
USMC Budget	112	103	33
USMC Actual/Plan	117	61

Naval Safety

The Department of the Navy strives to be a world class safety organization. In fiscal year 2007 we achieved our lowest rate ever recorded for total Class A Operational Mishaps.²

The Department has embraced the Occupational Safety and Health Administration (OSHA) Voluntary Protection Program (VPP), which fosters a cooperative relationship between management, labor, and OSHA to improve workplace safety. DON has achieved “Star” status, OSHA’s highest level of achievement, at five sites representing over half of the VPP star sites in DOD. The Navy activities include all four Naval Shipyards, our largest industrial facilities, and the Navy Submarine Base in Kings Bay Georgia. In 2007 DON was one of six Federal departments and independent agencies to meet all four of the goals specified by the President’s Safety, Health and Return-to-Employment (SHARE) program.

Noise is also a safety concern in the workplace. Hearing loss is not reversible, it’s often not painful and it won’t kill you, but it sure is a quality of life issue for our Sailors and Marines when they leave the Service. We are engineering systems to be quieter, improving our training, and making sure our people have the best personal protective equipment.

Encroachment Partnering

The Navy has established an encroachment management program to acquire real property interests in the vicinity of our installations. Long-term encroachment partnering agreements have been established with Churchill County, NV and a local land trust for NAS Fallon; with the City of Virginia Beach for NAS Oceana; with Ocean County, New Jersey for NAEWC Lakehurst; and with the State of Florida and Santa Rosa County, Florida for NAS Whiting Field. These long term agreements enable the Navy to join with others to acquire easements that preclude incompatible development around our installations. We are working to establish a

²A Class A mishap is one where the total cost of damages to Government and other property is \$1 million or more, or a DOD aircraft is destroyed, or an injury and/or occupational illness results in a fatality or permanent total disability. An operational mishap excludes private motor vehicle and off duty recreational mishaps. Mishaps exclude losses from direct enemy action.

long term encroachment agreement to protect lands under the supersonic operating corridor at NAWS China Lake and Edwards AFB, California.

The Marine Corps secured easements on 2,715 acres at a cost of \$6.9 million in fiscal year 2007 while our partners contributed \$6.8 million to prevent incompatible development and protect vital ecological resources. Marine Corps projects in progress and planned for fiscal year 2008 are expected to reach \$30 million in DOD and partner funds to address encroachment at MCB Quantico, MCAS Cherry Point, MCB Camp Lejeune, MCAS Beaufort, and MCB Camp Pendleton.

Energy

The Department of Navy is committed to achieving the energy efficiency, water conservation, and renewable energy goals that Congress and the President have directed. DON last year reduced energy consumption by 10.8 percent compared to the 2003 baseline. DON is increasing use of renewable energy through evaluation of geothermal, solar, wind, biomass, and ocean energy technologies, as well as implementing highly efficient cogeneration systems, efficient lighting, motors, HVAC and other energy systems. Nearly 3 percent of the total energy consumed by the Department comes from renewable sources including wind, solar and thermal. The Navy plans to award \$210 million per year in energy, water, and renewable projects. We continue to leverage new technologies including ocean thermal energy conversion, tidal energy, and fuel cells. Targeting energy systems at the “per building” level itself is promising, particularly with the use of photo-voltaic cells.

HOUSING

Our fiscal year 2009 budget continues to improve living conditions for Sailors, Marines, and their families. Thanks to the support of Congress, we met the goal to program the necessary funds and have contracts or agreements in place by the end of fiscal year 2007 to eliminate all inadequate family housing. Renovation or replacement of inadequate Navy housing will be complete by the end of fiscal year 2011. Marine Corps families will be out of inadequate family housing by fiscal year 2014. This time has been extended from previous projections to maintain a supply of housing for additional Marines associated with Grow the Force until additional housing is constructed through privatization initiatives. We continue to provide homes ashore for our junior shipboard unaccompanied Sailors, to provide appropriate living spaces for our junior enlisted bachelor Marines, and to address long standing family housing deficits. In our fiscal year 2009 budget, we are requesting the necessary funding to eliminate the remaining inadequate permanent party unaccompanied BEQs facility spaces still featuring “gang heads.”



Quantico, Virginia

Family Housing

As in past years, our family housing strategy consists of a prioritized triad:

- Reliance on the Private Sector.*—In accordance with longstanding DOD and DON policy, we rely first on the local community to provide housing for our Sailors, Marines, and their families. Approximately three out of four Navy and Marine Corps families receive a Basic Allowance for Housing (BAH) and own or rent homes in the community.
- Public/Private Ventures (PPVs).*—With the strong support from this Committee and others, we have successfully used PPV authorities enacted in 1996 to partner with the private sector to help meet our housing needs through the use of private sector capital. These authorities allow us to leverage our own resources and provide better housing faster to our families. Maintaining the purchasing power of BAH is critical to the success of both privatized and private sector housing.
- Military Construction.*—Military construction will continue to be used where PPV authorities don't apply (such as overseas), or where a business case analysis shows that a PPV project is not financially sound.

As of the end of fiscal year 2007, we have awarded 30 privatization projects for over 61,000 homes. As a result of these projects, over 30,000 homes will be replaced or renovated, about 5,000 new homes will be built, and the remaining 15,000 were privatized in good condition and did not require any improvements. Through the use of these authorities we have secured approximately \$8 billion in private sector investment from approximately \$800 million of our funds, which represents a ratio of almost ten private sector dollars for each taxpayer dollar.

Our fiscal year 2008 and outyear family housing privatization projects are targeted at reducing family housing deficits by constructing additional housing for our families where the private sector cannot accommodate their needs. This includes locations where increased requirements associated with the Grow the Force initiative will add to projected housing deficits. During fiscal year 2008, we plan to award three Marine Corps family housing privatization projects that would build an additional 1,100 homes.

Our fiscal year 2009 budget includes \$383 million for family housing construction and improvements. This amount includes \$259 million for the Government investment in family housing privatization projects planned for fiscal year 2009 award. It also includes the replacement or revitalization of housing in Cuba and Japan where privatization is not planned. Finally, the budget request includes \$376 million for the operation, maintenance, and leasing of remaining Government-owned or controlled inventory.

PLANNED PRIVATIZATION AWARDS

Location	Homes
Fiscal Year 2008	
MCB Camp Pendleton (Phases 6, 6A, and 6B)	367
MCB Camp Lejeune (Phase 4)	451
MCAGCC 29 Palms (Phases 2 and 2a)	285
Fiscal Year 2008 Total	1,103
Fiscal Year 2009	
Navy Southeast (Gulfport)	46
MCB Camp Pendleton	351
MCAGCC 29 Palms	600
MCB Hawaii	520
MCB Camp Lejeune	394
Fiscal Year 2009 Total	1,911
Total Fiscal Year 2008 to Fiscal Year 2009	3,014

Fiscal year 2008 locations include GWOT-funded projects.

Unaccompanied Housing

Our budget request includes \$1.3 billion for 37 unaccompanied housing projects at ten Navy and Marine Corps locations. The budget continues the emphasis on improving living conditions for our unaccompanied Sailors and Marines. There are three challenges:

—*Provide Homes Ashore for our Shipboard Sailors.*—With its fiscal year 2008 request, the Navy completed programming for military construction associated with the Homeport Ashore initiative to provide ashore living accommodations for E1–E3 unaccompanied Sailors who otherwise would live aboard ship even while in homeport.

In addition to the E1–E3 shipboard Sailors, there are approximately 5,000 unaccompanied E–4 Sailors with less than 4 years service who are assigned to sea duty. In fiscal year 2001, Congress extended the BAH entitlement to all unaccompanied E–4 Sailors assigned to sea duty. Funding for the E–4s with less than 4 years service remains un-programmed. The Navy is evaluating housing strategies for its unaccompanied Sailors including this segment of the population. In the interim, we will accommodate these junior Sailors to the greatest extent practicable within our existing unaccompanied housing capacity.

—*Ensure our Barracks Meet Today's Standards for Privacy.*—We are building new and modernizing existing barracks to increase privacy for our single Sailors and Marines. Reflecting the Commandant of the Marine Corps' priority to ensure single Marines are adequately housed, the fiscal year 2009 budget includes \$1.2 billion in MILCON funding for the construction of approximately 13,000 permanent party spaces at eight Marine Corps installations. The Marine Corps has programmed the necessary funding from fiscal year 2008 through fiscal year 11 to eliminate the BEQ deficit for the Marine Corps pre-Grow the Force end strength requirement by 2012. Additional funding for BEQ requirements specifically related to the "Grow the Force" initiative is planned to begin in fiscal year 2010 after NEPA requirements are met in order to satisfy this requirement by 2014. These barracks will be built to the 2 + 0 room configuration, as have all Marine Corps barracks since 1998. This is consistent with the core Marine Corps' tenets for unit cohesion and teambuilding.

—*Eliminate Gang Heads.*—The fiscal year 2009 budget request includes funding to eliminate the last Navy permanent party BEQ with a gang head. The Marine Corps had already accomplished this goal in fiscal year 2005, but will continue to use these facilities on an interim basis to address short-term housing requirements resulting from the additional end-strength related to the Grow the Force Initiative.



Pacific Beacon at San Diego

Unaccompanied Housing Privatization

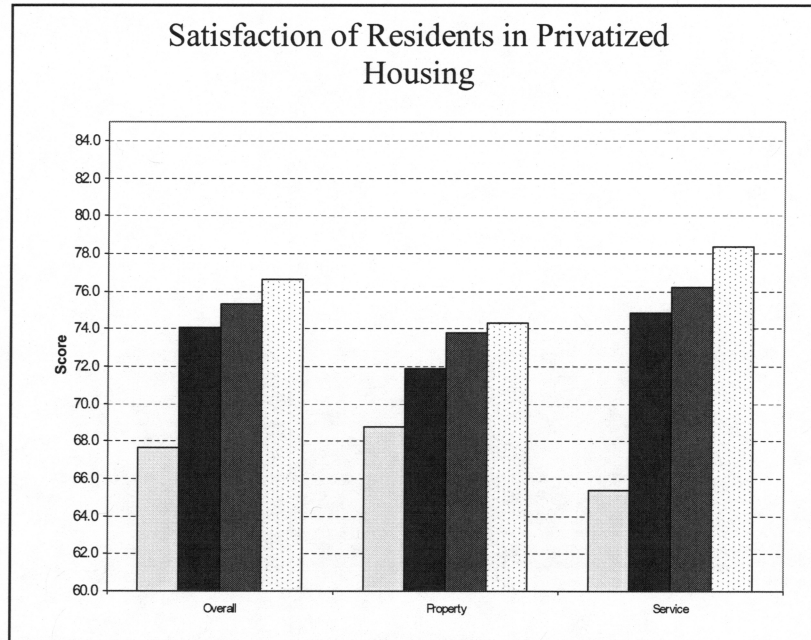
The Department awarded our first pilot unaccompanied housing privatization project to Pacific Beacon LLC in December 2006. When complete in 2009, this project will provide 941 new two-bedroom/two-bathroom apartments for E-4 and above enlisted personnel in San Diego, CA who are unsuitably housed in the private sector or who are living in Government quarters that could be used by shipboard Sailors. An existing unaccompanied housing building, containing 258 "1+1E" modules, was also privatized as part of this agreement. Our partner will provide additional quality of life amenities to existing buildings, such as a swimming pool. We expect the first building to be complete by the end of this year and overall project completion in 2009. I am pleased to report the facility that was privatized, "Palmer Hall," won an industry award for improved resident satisfaction based on resident surveys.

In December 2007, we executed business agreements for our second pilot project at Hampton Roads, VA. This project will build more than 1,100 new two-bedroom/two-bathroom apartments and privatize over 700 existing unaccompanied housing modules for unaccompanied shipboard E1-E3 personnel.

We are nearing completion of our evaluation of the Mayport/Jacksonville, Florida area as the candidate for third pilot project. We are also continuing to evaluate additional phases at San Diego and Hampton Roads using the public/private entities previously executed.

Managing Our Privatization Portfolio

We take seriously our responsibility to monitor the privatization agreements to ensure that the Government's long term interests are adequately protected. We have instituted a portfolio management approach that collects and analyzes financial, occupancy, construction, and resident satisfaction data to ensure that the projects remain sound and that the partners are performing as expected. We conduct meetings with senior representatives of our partners and, where necessary, resolve issues of mutual interest. We use focus groups to obtain direct feedback from residents, property managers, and Command representatives. Customer surveys show overall improvement in member satisfaction after housing is privatized. Where our projects have encountered difficulties, appropriate corrective actions have been taken. For example, we had concerns regarding performance of the private partner in our Pacific Northwest project. The partner sold its interest as a general partner to another company which has a record of good performance with military housing privatization projects.



ENVIRONMENT

Shipboard Programs

The Navy continues to convert its shipboard air conditioning and refrigeration plants from Ozone Depleting Substances (ODS) to non-ODS refrigerants. As of February 1, 2008, the Navy completed 552 of 690 air conditioning conversions and 595 of 611 refrigeration conversions. The Navy reached a major milestone in 2007 as conversions of the final aircraft carrier air-conditioning systems began. The Navy expects to complete its transition to non-ODS refrigerants by 2017.

In addition to the shipboard air conditioning and refrigeration conversion program, the Navy has taken other ODS management efforts which have reduced our Class I ODS usage by over 95 percent. For example, the Navy is designing and building the first aircraft in the world without halon for fire suppression. In recognition of these many achievements, the Navy garnered six EPA Best of the Best Stratospheric Ozone Protection Awards at the 20th Anniversary Meeting of the Parties of the Montreal Protocol in September 2007.

The Navy has also completed 168 of 334 upgrades to its plastic waste processors (PWPs), which allow ships at sea to compress plastics into a solid disk for disposal or recycling ashore. The upgraded PWPs reduce maintenance, improve reliability and throughput, and include a self-cleaning feature, giving our Sailors the best equipment available to meet no-plastics discharge requirements while at sea.

Natural Resources Conservation

The Department of the Navy's natural resources conservation programs rely on Integrated Natural Resources Management Plans (INRMP) to ensure our programs are effective in providing conservation benefits to species and their habitats while ensuring no net loss to the military mission. For example, in 2007, the United States Fish and Wildlife Service determined that the INRMPs for the Marine Corps' Townsend Bombing Range, GA, and Camp Pendleton, CA, provided a benefit to the protection of two species: the Flatwoods salamander (*Ambystoma cingulatum*) and tidewater goby (*Eucyclogobius newberryi*), respectively, and the range and base were excluded from Critical Habitat designation.

Since the Endangered Species Act, Section 4(a)(3)(B)(i), was amended in the fiscal year 2004 NDAA, U.S. Fish & Wildlife Service and National Marine Fisheries Service determined that the effectiveness of DON INRMPs outweighed the necessity to make 41 Critical Habitat designations on DON installations.

Environmental Compliance by Shore Installations

Domestically, 93 percent of Navy and 95 percent Marine Corps permits are in full compliance with Clean Water Act standards, and 98 percent of the Navy and 100 percent of Marine Corps population receives water that meets all Safe Drinking Water Act standards, both increases from recent years. The DON has made great strides in improving wastewater compliance through significant investments in infrastructure and improved management practices. For example, Marine Corps invested over \$109 million in military construction funds at Camp Pendleton between fiscal year 2002 and fiscal year 2008 to meet wastewater requirements, including the construction of a new tertiary treatment system to serve the southern portion of the base. An additional \$52.5 million military construction project is budgeted in fiscal year 2009 to reduce the total dissolved solids (TDS) in their drinking water.

Installation Restoration Program (IRP)

The DON has completed cleanup or has remedies in place at 83 percent of our 3,716 contaminated sites at our active installations. We plan to complete the program by the year 2014. The cost-to-complete the installation restoration program continues a downward trend with efficiencies of \$600 million over the past ten years. Use of new technologies, land use controls, remedy optimizations, contract efficiencies, and a dedicated professional staff has contributed to these efficiencies. Our fiscal year 2009 request of \$293 million consists of \$243 million for IRP, and \$50.0 million for munitions response.

Munitions Response Program (MRP)

The DON is proceeding with cleanup of Munitions and Explosives of Concern and Munitions Constituents at all Navy and Marine Corps locations other than operational ranges. We completed the preliminary assessments in fiscal year 2007 at 99 percent of the 239 known sites on 62 active installations and will complete site inspections and sampling by 2010. The data obtained from these inspections and samplings will provide the basis for developing estimates for environmental cleanup.

Range Sustainability Environmental Program Assessment

The Navy has completed environmental operational range assessments on 13 of 22 operational range complexes and is on track to complete the remaining nine operational range complex assessments in the United States and overseas by the end of fiscal year 2008. The Marine Corps has completed six range assessments and is on track to complete the remaining eight ranges in the United States by the end of fiscal year 2008, and an overseas range in fiscal year 2009. To date, neither the Navy nor the Marine Corps have identified a release or threat of a release from an operational range to an off-range area that presents an unacceptable risk to human health and the environment.

Alternative Fuel Vehicles

The Department has many initiatives to reduce its reliance on imported oil and increase its fuel conservation efforts. Over the past 5 years, the Navy initiatives have resulted in a 10-fold increase in the use of B-20 (i.e. 20 percent blend of biodiesel in petroleum diesel). The Navy has partnered with the Exchange Services to supply fuel for both government and commercial use at sites such as Naval Station Norfolk, VA. Biodiesel field testing and integration efforts are underway at several locations to address Executive Order 13423 goals, reduce greenhouse gas emissions, and to increase environmental security.

The Marine Corps has exceeded the Energy Policy Act (EPA) of 1992 for Alternative Fuel Vehicle (AFV) requirements for the past 5 years and is a leader in DOD and among other Federal agencies in the use of biodiesel and other alternative fuels. It has reduced its consumption of petroleum by 28 percent since 1999 due in part to increased use of alternative fuels (such as biodiesel, ethanol and compressed natural gas), neighborhood electric vehicles and conservation. For their aggressive pursuit of compliance with Federal mandates well beyond published goals, the Marine Corps received the White House Closing the Circle Award in 2005 and again in 2007.

Navy Marine Mammals/Sonar R&D investments

The Navy remains a good steward of the environment by taking steps to protect marine mammals from anthropogenic sound in the water. Navy has steadily increased annual marine mammal research from \$12.5 million in fiscal year 2004 to \$22 million in fiscal year 2009. This long-term investment will support more than thirty universities, institutions, and technology businesses worldwide and address critical issues in marine mammal demographics (the “what, where, when, how

many, and how much” questions); support efforts to establish acoustic criteria and thresholds to more accurately measure the effects of naval activities; develop effective mitigation and monitoring methods to lessen and better understand any potential effects; and continue to refine characteristics of the sound field associated with naval activity.

MMPA National Defense Exemption

The Navy has been operating for the past year under a National Defense Exemption (NDE) issued in January 2007. Given recent court decisions in California and continuing litigation in California and Hawaii challenging the Navy’s use of Mid-Frequency Active (MFA) sonar, the ability to rely on the NDE has been important to the Navy’s ability to continue to test and train with MFA sonar. This limited-in-time NDE is necessary to allow the Navy sufficient time to complete the analysis and consultation necessary to support long-term compliance for Navy’s MFA sonar testing and training. The Navy is preparing environmental planning and compliance documents in cooperation with the National Oceanic and Atmospheric Administration (NOAA). The process will be complete for the Southern California Range Complex, the Hawaii Range Complex and the East Coast (including the Gulf of Mexico) training areas by the time the NDE expires in January 2009. MFA sonar use as analyzed in these documents conservatively accounts for 75 percent of the Navy’s testing and training with MFA sonar. The documentation for the remaining ranges will be completed later in 2009.

The NDE requires the Navy to employ 29 specific mitigation measures developed with, and fully supported by, the National Marine Fisheries Service (NMFS) within NOAA. The NDE enables the Navy to employ MFA sonar in a manner that maintains testing and training fidelity while providing protection to marine mammals. By enabling critical MFA sonar testing and training to continue in an environmentally sound manner protective of marine mammals, the NDE serves as a bridge to future compliance with the authorization requirements of the MMPA. NMFS, in recently considering the effects of Navy MFA sonar training exercises on marine mammals in and adjacent to the Navy’s Southern California Operating Area, noted that the mitigation measures employed as a result of the NDE will minimize the risk of injury to marine mammals, and concluded that it does not expect the exercises to result in adverse population level effects of any marine mammal populations.

As part of the Council On Environmental Quality’s (CEQ’s) alternative arrangements for Navy compliance with the National Environmental Policy Act (NEPA) for the remaining exercises in the Southern California Operating Area through January of 2009, the Navy will use the NDE mitigation measures as modified by those alternative arrangements, as well as public involvement and best available scientific information to inform long-term range management decisions regarding continued testing and training with MFA sonar. However, while the MMPA has been removed as a basis for legal challenges, the Navy’s ability to meet its statutory requirement to train and maintain a ready force, which includes training with MFA sonar, remains at risk due to legal challenges based on other environmental laws, specifically NEPA, the Endangered Species Act (ESA), and the Coastal Zone Management Act (CZMA), to the extent not addressed by Presidential exemption. Litigation surrounding those issues continues, with two courts recently enjoining MFA sonar use during two U.S. Pacific Fleet major exercise series. On March 31, 2008, the Department of Justice filed a petition with the U.S. Supreme Court for a writ of certiorari on the issues regarding MFA sonar training during the remaining exercises in the Southern California Operating Area through January of 2009.

RELOCATING THE MARINES TO GUAM

National interests and treaty commitments require the United States to strengthen its military capabilities in the Western Pacific. U.S. forces must be positioned to maintain stability, ensure flexibility to respond to regional threats, project power throughout the Pacific, defend our assets as well as those of our allies, and provide forces to respond to global contingencies.

The relocation of Marine Corps forces from Okinawa to Guam under the October 2005 agreement, “U.S.-Japan Alliance: Transformation and Realignment for the Future” (ATARA) is part of a broader realignment that, when implemented, will strengthen our regional posture, deter potential aggressors, and provide capabilities that can be flexibly deployed in contingencies. This is essential for the defense of Japan and for peace and security in the Pacific.

Plans for implementing the military realignment to Guam have progressed significantly. United States (USG) and Government of Japan (GOJ) representatives meet regularly to develop implementing instructions covering the programming, budg-

eting, and funding to construct operational facilities, utilities, and housing needed to realign 8,000 Marines and 9,000 dependents from Okinawa to Guam. The USG and GOJ have negotiated a GOJ contribution of \$6.09 billion of the estimated \$10.3 billion cost for infrastructure on Guam. We have budgeted an updated total of \$62 million in various DoN accounts in fiscal year 2009 to continue planning efforts.

We continue numerous studies necessary for preparing an EIS in compliance with the NEPA. The EIS addresses the movement of Marine Corps forces from Okinawa to Guam as well as Navy efforts to construct a transient nuclear aircraft carrier-capable pier at Apra Harbor and Army efforts to locate a ballistic missile defense battalion on the island. A draft EIS is expected in spring 2009, the final EIS in December 2009, and a Record of Decision (ROD) in January 2010.

In parallel with the EIS efforts, we are developing a Guam Joint Military Master Plan (GJMMP). The GJMMP addresses the realignment of Marine Corps forces in the context of other ongoing DOD actions on Guam, such as increasing intelligence, surveillance, and reconnaissance capabilities and transient forces at Andersen Air Force Base, and the increased Navy submarine presence, and the Army effort noted above. A working level draft of the GJMMP will be complete this summer.

We are working closely with the Government of Guam (GovGuam), the Guam community, and other Federal agencies to ensure that social, economic, cultural, and other direct and indirect consequences are considered. DOD officials meet regularly with representatives from local agencies as part of a Civilian-Military Task Force on the island. We regularly meet with key GovGuam officials to coordinate compatibility with Guam's own Master Plan. Several public scoping meetings have been held and future public outreach sessions will be scheduled to ensure the community's concerns and ideas regarding environmental, socioeconomic and cultural impacts are taken into account. Federal support is also provided through DOD's Office of Economic Adjustment (OEA), which has thus far provided nearly \$1.7 million in grants to GovGuam to support key planning and impact studies.

The business community, including local industry, is updated semi-annually on the relocation and acquisition effort at the Guam Industry Forum. These gatherings, held on Guam, attract large and small scale businesses and serve to facilitate networking and partnering opportunities.

DOD also ensures GovGuam's voice is heard by the rest of the Federal Government by co-chairing with the Department of Interior's Office of Insular Affairs a Federal Interagency Task Force. There are five working groups that bring together representatives from key Federal agencies such as Department of Labor, Health and Human Services, Department of State, Department of Agriculture, Environmental Protection Agency, Department of Homeland Security and others to address issues that will affect Guam during and after the military realignment. GovGuam representatives participate in each of the five working groups. I am pleased to note that GovGuam's Port Authority and the Department of Transportation's Maritime Administration are working together to achieve GovGuam's short-term vision of supporting the military realignment and its long-term goal of becoming a key intermodal transportation hub in the Pacific Rim region.

A critical concern is the availability of an adequate, trained construction workforce. With the need for an estimated 12,000 to 15,000 laborers, a small, but fully employed indigenous workforce on Guam, and a relatively low wage scale that will not attract significant numbers of workers from the continental United States or Hawaii, a significant amount of foreign workers will be required. Legislation is pending in Congress to relax the current cap on H2B visas for workers on Guam and the Marianas Islands. We will need a reliable supply of non-immigrant labor throughout the construction phase to complete the relocation of the Marines to Guam.

An additional issue of concern is the State of Guam's off-base infrastructure and public services. Although Guam is a U.S. Territory, the condition of much of its infrastructure is inferior to that found in other parts of the United States. Without major improvements to its infrastructure, Guam may not be able to adequately support the projected increase to its population. We are working with other Federal agencies and the Government of Guam through the Interagency Task Force to identify specific requirements and opportunities within the U.S. Government to finance high priority upgrades to Guam's infrastructure that support the Department's realignment. Ongoing cooperation in this regard will be crucial to ensure a successful relocation effort.

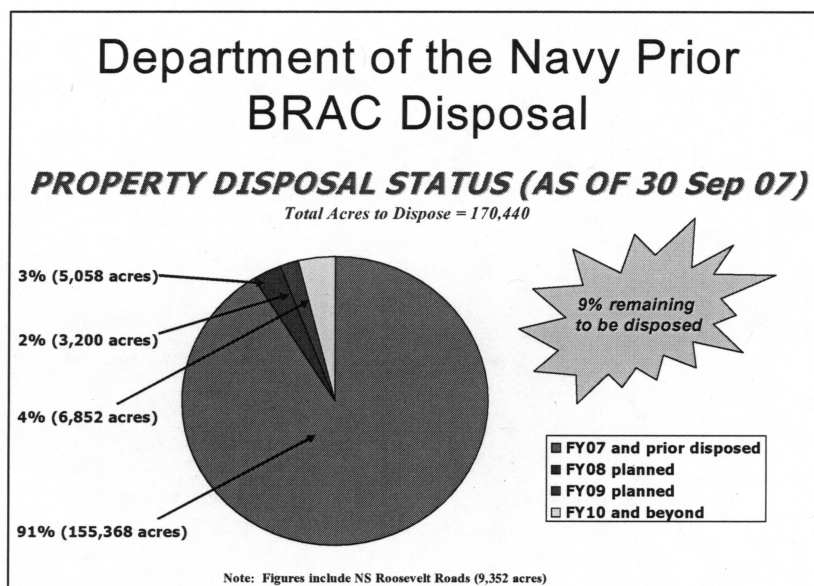
PRIOR BRAC CLEANUP AND PROPERTY DISPOSAL

The BRAC rounds of 1988, 1991, 1993, and 1995 were a major tool in reducing our domestic base structure and generating savings. The Department has achieved

a steady state savings of approximately \$2.7 billion per year since fiscal year 2002. All that remains is to complete the environmental cleanup and property disposal on portions of 17 of the original 91 bases and to complete environmental cleanup on 14 installations that have been disposed.

Property Disposal

Last year we conveyed 3,363 acres in six separate real estate transactions at three prior BRAC bases. We also completed Findings of Suitability for Transfer (FOST) for 3,397 acres. The FOST certifies that DOD real estate is environmentally suitable for transfer by deed under Section 120(h) of the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) (42 U.S.C. Section 9620(h)). The Department of the Navy has disposed of 91 percent of the 170,000 acres from prior BRAC actions.



The DON has spent about \$3.7 billion on environmental cleanup, environmental compliance, and program management costs at prior BRAC locations through fiscal year 2007. The current cost to complete cleanup at prior BRAC locations is \$1.1 billion in fiscal year 2009 through completion.

DON completed 12 CERCLA Records of Decisions (RODs) and Action Memos in fiscal year 2007, seven of which were at Alameda, CA. We sampled over 3,500 monitoring wells, and treated over 350,000 cubic yards of contaminated soil and 4.4 billion gallons of contaminated groundwater. At Hunters Point we have completed the removal of all radiological impacted sewer and storm lines on Parcel B: we removed enough soil to cover a football field 28 feet high! We teamed with the Stanford University to treat PCB contamination in sediment with activated carbon. This innovative technology has proven to be quite successful and could lead to more efficient and faster cleanup across DON.

In fiscal year 2008 we are continuing progress at Hunter's Point and Alameda, two of our Prior BRAC installations with remaining programs of considerable size. There has been a concerted effort to accelerate environmental and low-level radiological cleanups to support redevelopment initiatives. Admittedly, the radiological component has caused complications and delays not previously anticipated. In fiscal year 2008, DON will use the \$50 million in additional appropriated fiscal year 2008 funds to further cleanup actions at Hunters Point, Adak, Alameda, and Treasure Island. Another \$8 million appropriated in fiscal year 2008 for use on groundwater at Hunters Point will be used toward a zero valent iron treatability study. The additional funding allocated to Hunters Point will help expedite cleanup of what has proven to be one of the most unique and difficult BRAC sites for the Navy.

We have continued our success in using property sales to assist in funding environmental cleanup and property disposal as well as recover value for taxpayers from the disposal of Federal property. Through a combination of cost economic development conveyances, negotiated sales, and public sales, the DON has received over \$1.1 billion in revenues from the sale of prior BRAC property. Nearly all of this revenue has been generated since fiscal year 2003. Beginning in fiscal year 2003, we have used these funds to accelerate environmental cleanup, and to finance the entire DON prior BRAC effort including caretaker costs since fiscal year 2005.

One significant property sale remains for the Navy at the former Naval Station Roosevelt Roads, PR, which is planned for fiscal year 2009. Revenue projections for Roosevelt Roads are unknown, but are expected to be well below that obtained from the sale of California property at El Toro and Tustin. In the absence of additional land sale revenue, we are resuming the need for appropriated funds in the fiscal year 2009 budget.

BRAC 2005 IMPLEMENTATION

The DON continues to move forward implementing closure and realignment plans that will eliminate excess capacity, improve operational readiness, capitalize on joint basing opportunities with our sister Services, maintain quality of service, and achieve cost savings. In contrast to prior BRAC commissions, the BRAC 2005 recommendations have fewer closures and many more realignments, particularly realignments that involve more than one component. The DON has six “fence line” closures and 81 realignment recommendations involving 129 bases.

Environmental Cost to Complete

Given the relatively few number of closures, the absence of major industrial facilities, and the extensive site characterization, analysis, and cleanup that has occurred over the last several decades, the DON’s remaining environmental liabilities for BRAC 2005 are substantially less than in previous rounds of BRAC. We have spent \$128 million in cleanup at BRAC 2005 locations through fiscal year 2007. Our remaining environmental cost to complete for fiscal year 2009 and beyond is \$74 million and the majority of it will be spent at Naval Air Station Brunswick, ME and Naval Weapons Station Detachment, Concord, CA.

Accomplishments

Nearly all impacted communities have established a Local Redevelopment Authorities (LRAs) to guide local planning and redevelopment efforts. The DOD Office of Economic Adjustment has been providing financial support through grants and technical assistance to support LRA efforts.

One of the success stories of the past year was the establishment of Midcoast Regional Redevelopment Authority (MRRRA) as the implementation LRA in Brunswick, ME. In December 2007, the reuse master plans for Brunswick Naval Air Station and Topsham Annex were adopted and MRRRA began implementation of the plans in January 2008. Under the reuse plan, 51 percent of the total base property has been allocated for development (approximately 1,630 acres); and 49 percent (approximately 1,570 acres) of the base has been dedicated to recreation, open space, and natural areas.

The former main base of Naval Station Pascagoula (known as Singing River Island) reverted to the State of Mississippi on June 1, 2007. This facility was homeport to 1,000 military members and 100 civilians. Established as an operational homeport in 1992, the Naval Station fulfilled its mission to support and maintain surface combatants in the Southeast Region. The installation closed on November 15, 2006; but severe damage sustained to several buildings and the pier from Hurricane Katrina delayed the reversion to allow repair of the facilities. Through the team efforts of the State of Mississippi, the LRA, and the Navy, the repairs were awarded in January 2007 and completed in May 2007. This reversion represents 528 acres of BRAC 2005 property eliminated from the Navy’s property account.

Finally, with careful management—such as deploying tiger teams to conduct independent evaluations of site conditions and requirements—we have been able to keep our cost increases down to a modest 2 percent compared to our fiscal year 2008 budget request.

Joint Basing

There will be twelve joint bases, of which the DON has the lead on four: Joint Base Anacostia-Bolling, DC; Joint Base Pearl Harbor-Hickam, HI; Joint Base Little Creek-Fort Story, VA and Joint Region Marianas, Guam. DOD issued Joint Basing Implementation Guidance (JBIG) in January 2008, stating that a memorandum of agreement for each joint base site will define the relationships between service com-

ponents. Under the joint guidance, total obligation authority and real property will transfer to the lead service prior to full implementation. A number of “table top” exercises have been conducted to facilitate a smooth transition in implementing joint basing.

Walter Reed National Naval Medical Center

Naval Facilities Engineering Command is the construction agent for the Army-lead BRAC Recommendation to relocate all tertiary (sub-specialty and complex care) medical services from Walter Reed Military Medical Center (WRNMMC) to Bethesda, Maryland. The Draft EIS public comment period closed on January 28, 2008, and a Final EIS is being prepared that will address public comments, most of which concerned traffic/congestion and homeland security. The ROD is planned for May 2008.

Two construction contracts are being prepared to meet the full requirements of the BRAC recommendation:

- Contract 1 includes design and construction of Medical Inpatient and Outpatient facilities, Medical renovations of Buildings 1–10, renovation of Building 17 to house administrative functions, and construction of parking structures. This contract is scheduled for award February 2008. Contract language precludes all construction activity until the ROD is signed so as to not prejudice the NEPA process. Award prior to ROD signature allows design to begin and gives the project better assurance of completion within the BRAC statutory deadline.
- Contract 2 includes construction of non-clinical/WTU administrative facilities, WTU and Staff Bachelor Enlisted Quarters, and a gymnasium. Contract award is planned for September 2008.

Fiscal Year 2007 Financial Execution

The DON budget for fiscal year 2007 was \$690 million. The OSD Comptroller will release \$54 million of that amount once the business plan for Naval Integrated Weapons and Armaments RDT&E Centers at China Lake, Dahlgren, and Indian Head is approved. As of December 2007, the overall obligation rate was approximately 66 percent, which was impacted by the fact that over 90 percent of the funding was received past the midpoint of the fiscal year. Contract awards for 11 of 51 fiscal year 2007 BRAC construction projects have been delayed pending resolution of issues related to business plans, resolution of congressional issues and refinement of project scope requirements. We anticipate having contracts in place for the remaining 11 un-awarded projects by the end of the third quarter fiscal year 2008.

Impact of the DOD fiscal year 2008 Reduction

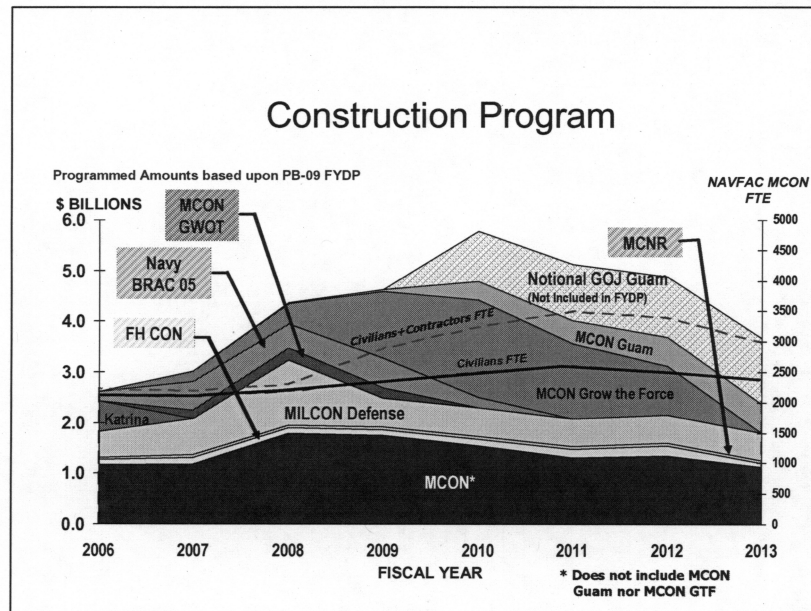
Of the DOD fiscal year 2008 Congressional budget reduction of \$939 million, DON's share was determined to be \$143 million. Lack of funding creates uncertainty with our civilian and military workforce, creates turmoil with the implementation of business plans and causes us to lose momentum. Finally, without full fiscal year 2008 funding the Navy's ability to fully support joint recommendations, where the business plan is led by another component, is severely degraded. We encourage the Congress to promptly restore full funding.

If funding is not restored, we will delay two BRAC construction projects (\$90 million to co-locate Investigative Agencies at Marine Corps Base Quantico, VA; \$7 million to relocate Navy Reserve Cargo Handling Battalion to Fort Lewis, WA) and Operations and Maintenance (\$46 million) spending from fiscal year 2008 to fiscal year 2009. Without prompt restoral of these funds, the Navy will jeopardize its ability to implement BRAC 2005 by the September 15, 2011 statutory deadline.

MEETING THE CONSTRUCTION EXECUTION CHALLENGE

We have outlined how our facilities investment is at a record setting pace. Yet we are poised to accomplish this tremendous amount of work at hand. The Department's execution agent, the Naval Facilities Engineering Command (NAVFAC), has outlined an aggressive plan to accomplish the increased volume of work.

Due to market conditions exacerbated by world-wide natural disasters, NAVFAC's execution lagged during fiscal year 2006. At the end of fiscal year 2006, total NAVFAC carry-over was \$1,139 million, of which \$712 million was DON. In addition, there were seven pending reprogrammings. In the subsequent 16 months, we scrubbed these requirements and used innovative acquisition strategies to reduce this backlog. As of the end of January 2008, fiscal year 2007 and prior carry-over is down to \$302 million of which \$186 million is DON. NAVFAC acquisition plans for fiscal year 2008 are poised to award all remaining prior year un-awarded and fiscal year 2008 MILCON and BRACON projects.



To execute the growing MILCON workload, we are utilizing successful past and innovations practices:

- Use best value source selection procedures.
- Stand-up additional, fully autonomous Officer-in-Charge of Construction offices at Bethesda, Camp Pendleton, and Camp Lejeune to focus on the concentrated workload at these locations
- Package similar and nearby projects over multiple fiscal years to achieve economies of scale. We achieved great success at Recruit Training Command complex at Great Lakes, IL using this strategy. We will do this where it makes sense while continuing to find opportunities to meet small and disadvantaged business goals.
- Incorporate “best of breed” features and standardize designs, particularly for Marine Corps BEQ projects.
- Apply Common component sourcing to minimize differences in building systems that would otherwise require multiple vendors, maintenance routines, and a wide variety of repair parts.
- Award program support contracts to augment NAVFAC’s workforce, while maintaining the Governments acquisition and technical authority.

CONCLUSION

The Sea Services will operate in an increasingly dispersed environment to support the Maritime Strategy and ensure the freedom of the seas. This requires an ever strong foundation of installations from which to re-supply, re-equip, train, and shelter our forces. We must continue to make smart infrastructure investments to prepare for the future and secure the peace abroad. It has been an honor and privilege to serve this great Nation and the men and women of our Navy and Marine Corps team—the military and civilian personnel and their families.

Thank you for your continued support and the opportunity to testify before you today.

GUAM

Senator JOHNSON. What is the Navy doing, Mr. Penn, to ensure that the massive amount of construction that will take place in Guam is being integrated with and can be absorbed by the island? When can we expect to see a master plan that will detail all the

projects that are planned and how they fit with the rest of the island's infrastructure?

Mr. PENN. A preliminary draft master plan for internal DOD review should be available the end of this month. This is the first iteration of the draft master plan. We intend to complete the final document in September.

We are working with the Government of Guam, CMI, the Department of Labor, and the Department of State officials to identify the skilled workforce that we will need on Guam. We are supporting two companion bills in Congress today for the H2 Visa, controlling immigration on Guam.

General PAYNE. Sir, we have actively engaged in putting people forward to help work through the infrastructure requirements on Guam, to include not only the naval personnel, representatives from the Joint Guam Program Office and also Marine Corps personnel because it is going to be a daunting task and needs to be orchestrated very carefully with both the government and military efforts.

Senator JOHNSON. The Government of Japan has agreed to fund a portion of that, but I understand we have yet to see actual dollars from them and the \$6 billion they have promised is a ceiling and not a floor.

What is the status of the Japanese contribution to Guam?

Mr. PENN. Sir, this month, my Director of the Joint Program Office was in Japan and just yesterday the negotiation team, they've been in Washington all week and I had the opportunity to speak with them yesterday.

At this time, the negotiations, as you can imagine, are very, very complex. We had anticipated about \$500 million coming to us next year and right now we are in the vicinity, at least the planning vicinity, of about \$475 million. So we're very close.

We think we will get to the \$500 million with further negotiations and that will put us on time to start of construction in the 2010 time, fiscal year 2010 timeframe as we had planned.

GROW THE FORCE

Senator JOHNSON. Secretary Penn, the Navy's 2009 military construction budget request is \$3.15 billion. It's nearly \$1 billion larger than last year's spending level. Most of this increase is due to the "grow the force" initiative.

According to a recent GAO report, the majority of the new Marine Corps units will be established before permanent facilities are complete.

What is the Navy doing to bridge the gap between the time new units arrive and the completion date of the construction projects? Do you anticipate sending to Congress additional requests for temporary housing in the future?

Mr. PENN. General, would you like to respond?

General PAYNE. Thank you, Mr. Chairman. If I can take a stab at that for you. We are ahead of schedule, fortunately, in growing the force and, fortunately, there has been little to no impact, little to no negative impact on our facilities or on our MILCON Program because of being ahead of schedule.

The reason for that is that we have exceeded our retention goals in the past and so the influx or the increase in our end strength is mostly from people staying in as opposed to new recruits that we would have to provide additional BEQ spaces or additional housing. Number one.

Number two, we do have a very aggressive program for BEQs, to include 35 new BEQs that are going to be started in fiscal year 2009. We believe that we will have our BEQ rebuild program in place on schedule by 2012 and all of the facilities for “grow the force” completed by 2014.

NAVAL FACILITIES COMMAND

Senator JOHNSON. The Navy’s military construction programs cannot be executed without adequate support from Naval Facilities Command.

Given the large increase in your request this year, what is the Navy doing to ensure effective management, coordination and execution of its construction programs? Does the Naval Facilities Command have enough personnel?

Admiral HANDLEY. Thank you, Mr. Chairman. To give you a perspective, they’re looking—Naval Facilities Engineering Command obviously has been doing the construction for the Navy and the Marine Corps as a DOD construction agent for years, has been looking at several acquisition strategies to ramp up to meet this demand and that includes several things, such as the combining of like construction projects, looking at similar design of facilities to streamline that, but also looking at program support contracts, so that as they increase to meet this demand, they do that through a leverage contract perspective. So at the end of the surge of this construction period, they don’t end up with an additional staff on board where they end up with a problem with workforce management.

So kind of a combination of looking at combining some projects. One of the biggest ones that we’re looking at obviously is Guam and as we do that, we’re also looking at the ability to include the housing for the immigrant workforce that would come in, the support for that workforce that would come in, also not burden the island of Guam as they do that large influx of construction as well, sir.

NNMC AND WRAMC

Senator JOHNSON. Secretary Penn, the supplemental budget request includes \$218.9 million in BRAC funding to accelerate construction of the Walter Reed National Military Medical Center at Bethesda by 7 months.

What is the total projected cost of the Walter Reed Center at Bethesda, and is the Navy or the Tricare Management Activity requesting additional funding for this project in the 2009 BRAC request?

Mr. PENN. Sir, I think that’s going to be a question for the record for us. I’ve had not had visibility on this in maybe 4 months, 5 months. So I’d be afraid to commit.

[The information follows:]

The cost to complete the Walter Reed National Military Medical Center at Bethesda is \$1,112.5 million. This amount includes \$936 million in Military construction funds and \$3.5 million in planning and design funds as well as \$173 million in operations and maintenance funds. The fiscal year 2009 President's Budget request included \$234.8 million for efforts at Bethesda; an additional \$208.3 million in fiscal year 2009 is also required to fund the enhancement and acceleration of the project. This requirement, along with an additional \$55 million requirement for Fort Belvoir (for a total fiscal year 2009 additional amount of \$263.3 million) was annotated on page 198 of the fiscal year 2009 Defense-Wide Agencies and Activities DOD Base Realignment and Closure 2005 Commission Budget Justification Material. DOD intends to seek this additional \$263.3 million as these expansions are necessary for the acceleration and enhancement effort within the NCR in direct support of wartime casualties. The funds are requested for the BRAC appropriation and will be allocated to TMA to execute.

VH-71

Senator JOHNSON. Secretary Penn, the plan to replace the Marine One helicopter fleet with new VH-71 helicopters has run into significant cost overruns with the program currently on hold while the Pentagon decides how to move forward.

The Navy has recently informed the committee of large cost increases for the hangars to house these helicopters relative to changing requirements since the money was originally appropriated.

Given the uncertainty of the program, why doesn't the Navy pause the Navy Hangar Construction Program until the requirements are clarified?

Mr. PENN. Sir, we continue the construction of the hangar, the program. We have found that the cost to cancel the program, plus pay all the penalties and so forth, increases the cost significantly. So we will go ahead and continue the construction of the program.

Admiral HANDLEY. Sir, from a practical matter, depending on where each project is in the process, the termination costs often exceed the cost to complete that project and then looking at the total cost of the program which would be the restart.

So on a case by case basis, I think we take an evaluation of those, but depending on where you are in the construction process, you need to take a look at those total costs as you go forward, sir.

Mr. PENN. I think we're going to the white side now.

Admiral HANDLEY. The reprogramming package, I believe, that we've got for the Presidential helicopter has gone through some modification based on those requirements and so we'll continue to evaluate that, given these new requirements, sir.

ADDITIONAL COMMITTEE QUESTIONS

Senator JOHNSON. I would like to thank all of our witnesses for appearing before the subcommittee today. We look forward to working with you this year as the 2009 budget request process continues.

For the information of subcommittee members, if you have questions for the record that you would like to submit, please do so by the close of business on April 30, 2008.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR TIM JOHNSON

WALTER REED/BETHESDA NAVAL HOSPITAL—TOTAL COST

Question. Secretary Penn, the supplemental budget request includes \$218.9 million in BRAC funding to accelerate construction of the Walter Reed National Military Medical Center at Bethesda by 7 months.

What is the total projected cost of the Walter Reed Center at Bethesda?

Answer. The cost to complete the Walter Reed National Military Medical Center at Bethesda is \$1,112.5 million. This amount includes \$936 million in Military Construction funds and \$3.5 million in planning and design funds as well as \$173 million in operations and maintenance funds. The fiscal year 2009 President's Budget request included \$234.8 million for efforts at Bethesda; an additional \$208.3 million in fiscal year 2009 is also required to fund the enhancement and acceleration of the project. This requirement, along with an additional \$55 million requirement for Ft. Belvoir (for a total fiscal year 2009 additional amount of \$263.3 million) was annotated on page 198 of the fiscal year 2009 Defense-Wide Agencies and Activities DOD Base Realignment and Closure 2005 Commission Budget Justification Material. DOD intends to seek this additional \$263.3 million as these expansions are necessary for the acceleration and enhancement effort within the NCR in direct support of wartime casualties.

WALTER REED/BETHESDA NAVAL HOSPITAL—FISCAL YEAR 2009 BRAC REQUEST

Question. Is the Navy or the TRICARE Management Activity requesting additional funding for this project in the fiscal year 2009 BRAC request?

Answer. The funds are requested for the BRAC appropriation and will be allocated to TMA to execute.

WALTER REED/BETHESDA NAVAL HOSPITAL—COMPLETION DATE

Question. If this supplemental funding is approved, what is the projected completion date for construction?

Answer. We would expect to be able to complete construction of the new inpatient and ambulatory care buildings by October 2010. Construction of the new wounded warrior care wing will not be complete until summer 2011 due primarily to the need to phase certain portions of the project. The supplemental funding will also allow us to complete support buildings in time to meet the needs of the various medical functions as they realign from Walter Reed Army Medical Center to the new National Military Medical Center at Bethesda.

WALTER REED/BETHESDA NAVAL HOSPITAL—ROAD IMPROVEMENTS

Question. I understand that the Navy is considering asking the Defense Department to pay for some of the road and metro improvements around Bethesda to accommodate the additional traffic expected when this hospital opens. What is the status of the Navy's recommendation? What is the cost estimate for these improvements?

Answer. The Navy submitted a request on May 3, 2008 to the Defense Access Road (DAR) project office to certify two off-campus projects as eligible for DOD financing. One project would add a high-speed elevator from the Medical Center Metro Station to the western side of Rockville Pike. This would facilitate the movement of commuters from the Metro Station to the Medical Center side of Rockville Pike and thereby eliminate the need for increased capacity at the existing cross walk and ease the flow of traffic through a already heavily congested intersection. The second project would lengthen the left turn lane into the north gate of the Campus and thus reduce impact on the thru traffic proceeding south on Rockville Pike. The total cost of these two projects is estimated to be approximately \$21 million. These projects are not yet programmed or funded, but if certified as eligible for DOD financing, they will be considered for inclusion in a future budget.

WALTER REED/BETHESDA NAVAL HOSPITAL—BARRACKS

Question. Given the personnel increases that the new hospital will require, has the Navy programmed for additional barracks or housing at the Bethesda Campus that will accommodate additional staff there?

Answer. The BRAC project includes the addition of a new bachelor enlisted quarters that will provide 300 new rooms. These rooms will be designed and built to Warrior-In-Transition standards. As a result, the new rooms will be able to accommodate Wounded Warriors and may also be used for staff personnel when not otherwise occupied. There are no plans to add officer housing to the Bethesda Campus.

QUESTIONS SUBMITTED BY SENATOR MARY L. LANDRIEU

FEDERAL CITY—REAL ESTATE AGREEMENT

Question. Does the Department of the Navy anticipate any problems that will delay reaching a real estate agreement with the New Orleans Federal Alliance in time to meet the BRAC Commission's September 2008 deadline, and if so, what is the nature of these problem areas and how can they be solved?

Answer. There are still many details to be negotiated before a formal lease agreement can be signed. We are currently working with NOFA to develop a simple and straightforward lease agreement that will meet our needs as well as the needs of the State within the confines of the legislation. Assuming the success of these negotiations, the Department of the Navy does not anticipate any problems that will delay reaching a real estate agreement with the New Orleans Federal Alliance (NOFA) in time to meet the BRAC Commission's September 2008 deadline.

FEDERAL CITY—LEGAL ISSUES

Question. Do you foresee any legal issues and if so what is the solution for those problems?

Answer. The current NOFA proposal does raise some legal issues that will need to be resolved in order for the Federal City project to move forward. To solve these issues, we continue to work with NOFA to develop a mutually acceptable proposal.

FEDERAL CITY—FUNDING

Question. Are there any funding issues with the implementation of Federal City?

Answer. NOFA has advised the Department that the State of Louisiana will commit up to \$150 million for the development of Federal City. Governor Jindal reaffirmed a commitment of funding in his April 16, 2008 letter to DON. Navy is working with NOFA to ensure that all necessary funds will be obtained by the State as of September 30, 2008 and will be available to complete all work to meet the BRAC requirements. The \$100 million (\$75 million + \$25 million) may not cover all the Marine Corps' facilities needs and there may be challenges in addressing any shortfall.

FEDERAL CITY—IMPLEMENTATION

Question. What assistance can this committee provide to help ensure that the BRAC Commission's recommendations are implemented and the Federal City project becomes a reality?

Answer. Given Governor Jindal's assurance that funding for the realignment will be obtained as required by the BRAC Commission's conditional recommendation, at present, no assistance from this committee is needed as we are continuing to work with NOFA to make Federal City a reality.

SUBCOMMITTEE RECESS

Senator JOHNSON. This hearing is recessed.

Mr. PENN. Thank you, Mr. Chairman.

[Whereupon, at 11:30 a.m., Thursday April 24, the subcommittee was recessed, to reconvene subject to the call of the Chair.]